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**FUNCTIONAL SURVEY**  
**of**  
**THE DEPARTMENT OF BANKING**  
**and**  
**THE PENNSYLVANIA SECURITIES COMMISSION**  
**Commonwealth of Pennsylvania**

**A Task Force Report**  
**For**  
**THE STATE GOVERNMENT**  
**SURVEY COMMITTEE**

**By**  
**THE PENNSYLVANIA ECONOMY LEAGUE, INC.**





# PENNSYLVANIA ECONOMY LEAGUE, INC.

FOUNDED 1932

611 BLACKSTONE BUILDING  
HARRISBURG, PENNA.

OFFICE OF THE PRESIDENT

December 10, 1952

Mr. Francis J. Chesterman, Chairman  
Mr. John N. O'Neil, Executive Director  
State Government Survey Committee  
Harrisburg, Pennsylvania

Gentlemen:

In accordance with the request of your Committee, a functional survey has been made by the League of the Department of Banking and the Pennsylvania Securities Commission. The broad purpose of the survey was to determine whether their functions are being performed efficiently and economically, and to the end that the public interest is protected.

The suggestions and recommendations made by the Task Force members, as well as the Department of Banking representatives, have been incorporated in the final draft of the report, which is herewith submitted.

The survey was made and the report prepared by Martin P. Klingel, Ass't. Director, John N. Carson, Secretary and G. Fred Berger, Consultant on Banking Practices and Procedures of our Southeastern Division, as the Research Staff of the Task Force.

We appreciate the opportunity of assisting your Committee and desire to express our thanks for the splendid cooperation of the Secretary of Banking, Chairman of the Pennsylvania Securities Commission and their staffs given us during the course of the survey.

Sincerely yours,



Robert B. Murray, Jr.  
President.

Copy to Task Force Members:

Mr. George N. Bailey, Vice President, Harrisburg National Bank, Harrisburg, Pa.  
Mr. T. N. Burke, Vice Pres., Interstate Finance & Consumer Disc. Co., Phila., Pa.  
Mr. Norman T. Hayes, Vice President, Philadelphia National Bank, Philadelphia, Pa.  
Mr. R. J. Hopkins, Pres., Titusville Trust Co., Titusville, Pa.  
Mr. R. G. Kirschmann, Sec.-Treas., Johnstown Finance & Loan Co., Johnstown, Pa.  
Mr. G. M. Watson, Treas., State Capital Sav. & Loan Ass'n., Harrisburg, Pa.





FUNCTIONAL SURVEY

of

THE DEPARTMENT OF BANKING  
and  
THE PENNSYLVANIA SECURITIES COMMISSION

A Task Force Report

For

THE STATE GOVERNMENT SURVEY COMMITTEE

By

THE PHILADELPHIA COMMITTEE  
PENNSYLVANIA ECONOMY LEAGUE, INC.  
1616 Market Street National Bank Building  
Philadelphia 7, Penna.

December 1952





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### TASK FORCE ORGANIZATION

George R. Bailey	Vice Pres., Harrisburg National Bank	Harrisburg, Pa.
#T. N. Burke	Vice Pres., Interstate Finance and Consumer Discount Co.	Philadelphia, Pa.
Norman T. Hayes	Vice Pres., Philadelphia National Bank	Philadelphia, Pa.
R. J. Hopkins	Pres., Titusville Trust Co.	Titusville, Pa.
*R. G. Kirschmann	Sec.-Treas., Johnstown Finance and Loan Co.	Johnstown, Pa.
G. M. Watson	Treas., State Capital Sav. and Loan Ass'n.	Harrisburg, Pa.
Representing:		
#J. J. Feeney	Pres., Pennsylvania Consumer Finance Association	Allentown, Pa.
*J. W. Sembower	Pres., Pennsylvania Industrial Bankers Association	Uniontown, Pa.

### RESEARCH STAFF

G. Fred Berger	Consultant on Banking Practices & Procedures	
John N. Carson	Secretary	
Martin P. Klingel	Assistant Director	
	Pennsylvania Economy League, Inc.	Philadelphia, Pa.



### ACKNOWLEDGEMENT

Thanks are due, and hereby expressed to the Secretary of Banking, Chairman of the Pennsylvania Securities Commission, and those of their staffs who were called upon for their friendly, courteous and willing cooperation in supplying the information and data requested during the course of the study. Without such interest and cooperation, the work of the study would have been more difficult and time-consuming.





## SCOPE OF SURVEY

In accordance with the request of the State Government Survey Committee, the functional survey which has been made, entailed an analysis and evaluation of the administrative, examinational and investigational methods and procedures of the Department of Banking and Pennsylvania Securities Commission. This involves the supervision, regulation and registration, as required by law, of the 11,785 banking and building and loan institutions, consumer credit and motor vehicle installment sales licensees, and securities registrants, covering assets of \$6-3/4 billion. This is done with a total staff of 140, at an annual cost of \$812 thousand, which is paid by the institutions, licensees and registrants. The objective was to determine whether their functions are being performed efficiently and economically, and to the end that the public interest is protected.

A comprehensive preliminary progress report was prepared by the Research Staff and submitted to all members of the Task Force Organization for review and discussion in Harrisburg on October 29 and November 7, 1952. Present also at these discussions were Secretary L. Merle Campbell, Deputy Secretary Fred Wigfield and Comptroller Wm. R. Saussaman of the Department of Banking, to give them an opportunity, in line with League policy, to indicate in what respects the findings and recommendations of the Research Staff may have been improperly or incorrectly stated. The suggestions and recommendations made by the Task Force members, as well as the Department of Banking representatives, have been incorporated in this report.

It was felt there should be provided, in one convenient report, all-inclusive information, including parts of the 1934, 1941 and 1946 reports on the organization, administration and reorganization of the Government of the Commonwealth pertaining to the Department of Banking and the Pennsylvania



Securities Commission. It is for these reasons the report is of such a detailed nature, as its contents go far beyond the findings of a functional survey. It is believed this more complete report will be of great value to all who are interested in and concerned with the operations of the Department of Banking and the Pennsylvania Securities Commission.

While license fees, personnel policies and procedures, and forms control and records administration are being handled by separate horizontal surveys, certain aspects of these matters are covered in the report.

Information with respect to: (a) the duties which are performed by the employees of the Department of Banking and Pennsylvania Securities Commission was obtained by the use of Job Analysis Questionnaire and Instructions (Exhibit 4) and (b) education, previous experience, length of service, etc., by the use of Education and Experience Information form (Exhibit 5).

We have endeavored to be objective in our analysis and equally objective in our reporting.





## FOREWORD

Since 1919, for banking institutions, and since 1933, for building and loan associations, the operations of the Department of Banking have been entirely self-supporting. No funds have been appropriated to it from the General Fund nor have any funds received from banking institutions or building and loan associations for direct examination and overhead costs been, at any time, transferred from the Banking Fund to the General Fund.

The two transfers of \$500,000 each in the past four years from the Banking Fund to the General Fund were from the surplus of license fees collected by the Consumer Credit Division and the Motor Vehicle Sales Finance Division over their actual costs of operation. For the five years ending May 31, 1952 alone, the receipts and expenditures for these two divisions were as follows:

	<u>Receipts</u>	<u>Expenditures</u>	<u>Excess Receipts Over Expenditures</u>
Consumer Credit Division	\$ 669,498	\$244,640	\$424,858
Consumer Discount Companies			
Small Loan Companies			
Credit Unions			
Pawnbrokers			
 Motor Vehicle Sales Finance Div.	 575,030	 266,811	 308,219
Installment Sellers			
Sales Finance Companies			
Collector-Repossessors			
 Total	 <u>\$1,244,528</u>	 <u>\$511,451</u>	 <u>\$733,077</u>

The method of billing banking institutions and building and loan associations for direct examination and overhead costs is outlined under the Executive Bureau, pages 13, 17, to 19 and Tables 1 to 4 inc.



PRESENT MEMBERS OF THE BANKING BOARD, BUILDING & LOAN BOARD  
AND OFFICERS OF THE DEPARTMENT OF BANKING

BANKING BOARD

<u>Name, Position &amp; Address</u>	<u>P.B.A. Group</u>	<u>Term</u>
E. E. Bauer, President Allegheny Trust Company, Pittsburgh, Pa.	At Large	9-1-47 to 9-1-53
John H. Dillen, President The Altoona Trust Co., Altoona, Pa.	3, 4, 5 and 6	9-1-51 to 9-1-59
Daniel H. Erdman, President Quakertown Trust Co., Quakertown, Pa.	1 and 2	9-1-47 to 9-1-55
E. T. Gramley, President Milton Bank & Safe Deposit Co. Milton, Pa.	3, 4, 5 and 6	9-1-51 to 9-1-59
Wm. J. Hamilton, Jr., Director Broad Street Trust Co., Philadelphia, Pa.	At Large	9-1-47 to 9-1-53
Norman T. Hayes, Vice President Philadelphia National Bank Philadelphia, Pa.	1 and 2	9-1-47 to 9-1-55
George R. Howell, President The Reading Trust Co., Reading, Pa.	At Large	9-1-49 to 9-1-57
Wm. B. McFall, President Commonwealth Trust Co., Pittsburgh, Pa.	7 and 8	9-1-49 to 9-1-57
T. C. Swartz, Executive Vice President Woodlawn Trust Co., Aliquippa, Pa.	7 and 8	9-1-49 to 9-1-57
Mark Willcox, President Beneficial Saving Fund Society Philadelphia, Pa.	At Large	9-1-49 to 9-1-57
Secretary of Banking, Chairman		

BUILDING AND LOAN BOARD

M. B. McDowell, Bradford, Pa.	6-25-43 to 9-1-49
R. S. Rothrock, Altoona, Pa.	6-25-43 to 9-1-49
George L. Transue, Easton, Pa.	10-23-47 to 9-1-51
J. Howard Gilroy, Beaver Falls, Pa.	10-23-47 to 9-1-53
G. Raymond Greeby, Cynwyd, Pa.	10-23-47 to 9-1-53
Joshua W. Swartz, Esq., Harrisburg, Pa.	10-23-47 to 9-1-55



BUILDING AND LOAN BOARD  
(Continued)

Frank W. Harris, Jr. Esq., Philadelphia, Pa.	10-23-47 to 9-1-55
Fred C. Klussman, Millvale, Pa.	10-23-47 (deceased)
Secretary of Banking, Chairman	

OFFICERS OF THE DEPARTMENT OF BANKING

L. Merle Campbell	Secretary of Banking
Fred Wigfield, Jr.	Deputy Secretary of Banking
Robert W. Doty	Deputy Secretary of Banking
Christian H. Brandt	Deputy Secretary of Banking
Wm. R. Saussaman	Comptroller
Walter L. Brenneman	Director, Building & Loan Bureau
Otto B. Lippman	Chief, Consumer Credit Division
James M. Robb	Chief, Motor Vehicle Sales Finance Division
Wm. J. McCuen	Chief Bank Examiner, Philadelphia District
Frank Glatfelter	Chief Bank Examiner, Philadelphia District
J. Paul Baker	Chief Bank Examiner, Pittsburgh District
Lewis W. Piedi	Chief Bank Examiner, Harrisburg District

OFFICERS OF THE PENNSYLVANIA SECURITIES COMMISSION

Raymond A. Cox	Chairman
Louis J. Conley	Commissioner
J. Myron Honigman	Commissioner
L. Merle Campbell	Secretary of Banking, Ex-Officio
I. G. Myers	Secretary
Charles M. Willits	Counsel Special Deputy Attorney General





## DEPARTMENT OF BANKING

Commonwealth of Pennsylvania

### GENERAL STATEMENT

CREATED -- 1891

The Department of Banking was created by the Act approved June 8, 1891, P. L. 217, and its powers were enlarged and extended by the Act approved April 11, 1895, P. L. 4. Both of these Acts were repealed by the Act of May 21, 1919, P. L. 209. The Act of May 21, 1919, was repealed by "The Banking Act of 1923", approved June 15, 1923 which Act was in turn superseded by the Department of Banking Code, approved May 15, 1933.

The Secretary of Banking is the chief officer, who is appointed by the Governor by and with the advice and consent of the Senate, for a term of four years. (From 1891 to 1895 the chief officer was the Superintendent of Banking; from 1895 to 1923 the Commissioner of Banking, and from 1923 to date the Secretary of Banking.)

The Deputy Secretary next in charge, by reason of the absence or incapacity of the Secretary, performs the duties of the Secretary.

### PART I -- POWERS AND DUTIES

It is the duty of the Department to take care that the laws of the Commonwealth in relation to persons and institutions under its supervision are faithfully executed. Supervision extends and applies to the following:

- (1) All corporations and persons which are authorized to receive or which do receive in this Commonwealth money on deposit or for safe-keeping, or which are authorized to engage or which do engage in this Commonwealth in a banking business, and all corporations which are authorized to act or which do act in this Commonwealth as trustees, guardians, executors, administrators, or in other fiduciary capacities, including banks, bank and trust companies, trust companies, private banks, savings banks, and mutual savings funds; but not including hotels or clubs, which receive money from guests or members for temporary safekeeping, express, steamship, or telegraph companies which receive money for transmission, and attorneys-at-law, real estate agents, and attorneys-in-fact, who are not engaged in the business of receiving moneys in this Commonwealth for deposit or for transmission but receive and transmit moneys only as an incident to their general business or profession, brokers licensed under the laws of this Commonwealth, holding membership in a lawfully constituted brokerage exchange, who do and have authority to do only such banking as is incidental to their brokerage business; (Powers granted by Act of May 15, 1933, P. L. 624, as amended 'Banking Code' and Act of May 15, 1933 P. L. 565, as amended 'Department of Banking Code')



- (2) All building and loan associations authorized to transact or transacting business in this Commonwealth; (Powers granted by Act of May 5, 1933, P. L. 457, as amended 'Building and Loan Code', and Act of May 15, 1933, P. L. 565, as amended 'Department of Banking Code')
- (3) Credit unions organized under the provisions of the Act of May 26, 1933, P. L. 1076, as amended;
- (4) Small loan companies engaged in the business of lending in sums of \$300 or less organized under the Act of June 17, 1918, P. L. 1012, as amended;
- (5) Consumer discount companies engaged in the business of lending sums of \$2,000 or less, organized under the Act of April 8, 1937, P. L. 262, as amended;
- (6) Pawnbrokers licensed to do business under the Act of April 6, 1937, P. L. 200 as amended;
- (7) Installment sellers, sales finance companies and collector-repossessors licensed to engage in the retail selling of motor vehicles and financing thereof as provided by the Act of June 28, 1947, P. L. 1110, as amended, and
- (8) Supervision, registration and regulation of corporations and persons engaged in sale of investment securities. This work is done by the Pennsylvania Securities Commission, a departmental administrative commission created in 1927. Powers granted by Act of June 24, 1939, P. L. 748, as amended.

Certain functions are also performed by a Banking Board of eleven members and by a Building and Loan Board of nine members which Boards were created under the provisions of the Department of Banking Code. The members of these Boards receive no salaries.

The Secretary of Banking under the provisions of the Department of Banking Code acts as Receiver of closed banking institutions and closed building and loan associations. At the present time all receiverships have been completed.

However, when any corporation subject to the supervision of the Department of Banking is also engaged in a title insurance business, a mortgage guarantee business subject to the supervision of the Insurance Department, such branch of its business is not subject to the supervision of the Department of Banking.

### HISTORY

Prior to 1891 state banking institutions were required to report quarterly to the Auditor General's Department which reports were published and, aside from a few special examinations, supervision of a closer type was apparently not required by the Auditor General. Upon the creation of the Department of Banking in 1891, following several unsuccessful attempts to bring about closer supervision of state banking institutions, the Auditor General turned over to the Department supervision of 87 operating institutions. In the fall of 1892





this number had increased to 172, their total deposits being \$201, 450,000.

In 1895 the Act of 1891 was repealed and a new act passed as a result of recommendations set forth in the first report of the superintendent which came from experience gained from special examinations made under the Act of 1891. The Act of 1895 also placed building and loan associations, numbering 1131, with aggregate assets of \$99,520,000, under the supervision of the Department.

In 1911 a law for the licensing and regulating of private banks in Pennsylvania was passed and became operative on December 1, 1911. Throughout the following years there were licenses issued to 239 private banks. At the present time there are only 9.

In 1915 the Department took over the enforcement of the law passed June 17, 1915 and generally known as the Loan Shark Act. Under this law 70 licensees were supervised during the first year.

In 1919 a new act covering the Department of Banking was passed placing operations on a self-sustaining basis and permitting the Secretary of Banking to take possession of insolvent institutions, which prior thereto had been administered by receivers appointed by the courts. This act was repealed in part in 1923 and a new law passed giving additional powers to the Secretary of Banking in connection with the receivership of insolvent institutions.

#### Securities Bureau

In 1923 the Securities Bureau was created in the Department and was administered by two Deputies. By the Act of April 13, 1927 the functions of this Bureau were transferred to the Pennsylvania Securities Commission.

#### Credit Unions

Credit Unions became subject to Department supervision by a law of May 26, 1933.

#### Banking Board

Under the provisions of the Act of July 2, 1935, P. L. 525, there was created a Board known as the "Banking Board" now familiarly termed the "Pennsylvania Banking Board." This Board, consisting of 8 bankers and the Secretary of Banking as Chairman, was given authority at that time to remove, upon recommendation by the Secretary and after hearing before the Board, any officer, director, trustee, attorney or employee of any State banking institution found guilty of illegal or unsound banking practices. The Board was and is now required to approve the establishment of branches in certain cases as is provided under Section 204 of the Banking Code. It also was used by the then Secretary of Banking as an advisory body. Subsequently the law creating this Board was amended to provide for a Board of 11 members, one of which shall be the Secretary of Banking who shall act as Chairman. Four of the eleven members are appointed by the Governor and they may be removed from office at his pleasure. The remaining six members are appointed by the Governor also from lists of nominations submitted to him by the Pennsylvania Bankers Association as provided under the amended law. These members cannot be removed from office, except for continued absence from six consecutive meetings of the Board. The Board presently meets only at irregular times upon call of the Secretary of Banking.

Under the provisions of an act approved the 21st day of May, A. D. 1943, P. L. 475, the Banking Board was given the further power to fix the amount of reserve fund to be established and maintained by banking institutions.



At the time of its first meeting which was held September 11, 1935, the Board expressed in the following words the policy it hoped to maintain:

"The Board hopes to use its powers to promote sound banking and through promotion of sound banking protect the interest of the people of our Commonwealth."

At that time the then Secretary of Banking also predicted that the Board "In time will go far to divorce the Department from politics." Continuing he further stated "The Banking Board, a completely non-political organization controlled by nominees of the bankers themselves, should assure the people of this Commonwealth a non-political Banking Department."

#### Building and Loan Board

In 1937, under the provisions of an amendment to the Department of Banking Code approved the 22nd day of April, 1937, P. L. 337, there was created a Building and Loan Board which was given the same power with respect to the removal of officers and employees of building and loan associations as had been given to the Banking Board at the time of its creation in 1935. The Building and Loan Board consists of 9 members one of whom is the Secretary of Banking who is designated Chairman. Two of the members are appointed by the Governor at his pleasure and six are appointed by the Governor from nominations made to him by the League of Pennsylvania Building and Loan Associations. In addition to the power to remove officers and employees of building and loan associations, the Board was authorized to exercise such additional powers as shall be given to it and shall act upon such matters as shall be referred to it by any laws of the Commonwealth.

Needless to say, at the creation of the Building and Loan Board it was hoped that it likewise would be effective in taking the Building and Loan Bureau out of the control of politics. Thus far the goal of these two Boards has not been realized.

#### Consumer Discount Companies and Pawnbrokers

In 1937 Consumer Discount Companies and Pawnbrokers were required to be licensed under the Department.

#### Motor Vehicle Sales Finance

One class of lenders in the Commonwealth remained exempt from supervision until 1947. Such lenders were the automobile dealers and finance companies who sold motor vehicles on the installment plan. Early in 1945, the Philadelphia Inquirer gave wide publicity to criticizable practices and methods of some finance companies and automobile dealers in their installment sales of motor vehicles and the Legislature in 1945 adopted a resolution authorizing the Joint State Government Commission to make a study of the problem and submit a report with recommendations for correction to the 1947 session of the Legislature. The result was the passage of the Act of June 28, 1947, known as "The Motor Vehicle Sales Finance Act," for which the Department of Banking was designated the administrator. The new law of June 28, 1947 provided for the licensing of all persons and corporations connected with the installment sale of motor vehicles, including automobile dealers, banks, finance companies and collector-repossessors.

#### Closed Bank and Building and Loan Division

Following the crash in 1929 and the numerous bank closings of the period from that year to 1934, it was necessary to create a Closed Bank Division for handling the policy making and major details of the receiverships. This Division was in





operation from the early 1930's until late in 1946 when it was dissolved.

The Closed Building and Loan Division was established in 1935 and completed its work and was dissolved in 1946.

x x x x x x x

The following table shows the financial institutions and persons under the supervision of the Department of Banking and the Pennsylvania Securities Commission.

	<u>NO.</u>	<u>ASSETS</u>
<u>ALL BANKING INSTITUTIONS - 6/30/52</u>	<u>344</u>	<u>\$5,915,500,759</u>
Banks	155	600,529,072
Bank & Trust	168	3,961,727,776
Savings Banks	8	1,283,464,916
Private Banks	9	38,296,856
Employee Mutual Assoc.	2	28,420,603
Trust Companies	<u>2</u>	<u>3,061,535</u>
 SMALL LOAN COMPANIES - 1/1/52	 678	 \$154,437,946
CREDIT UNIONS - 1/1/52	85	\$11,930,716
CONSUMER DISCOUNT COMPANIES - 1/1/52	400	\$7,415,515
B. & L. ASSOCIATIONS - 1/1/52	772	\$645,477,790
<u>M. V. SALES FINANCE COMPANIES - 9/1/52</u>		
Sales Finance Companies	645	-
Installment Sellers	5,305	-
Collector Repossessors	15	-
 PAWNBROKERS - 12/31/51	 104	 \$7,657,074

- - - - -

PENNSYLVANIA SECURITIES COMMISSION - 10/1/52

Registered Dealers	539
Registered Investment Advisers	67
Registered Salesmen	2,780
Registered Solicitors	51





Part 1

EXECUTIVE OFFICE

As of September 15, 1952 the Executive office was staffed as follows.

		Monthly	Salary Annual
1	Secretary of Banking	\$1,250.00	\$15,000.00
1	Deputy Secretary of Banking, Sr. Grade	917.00	11,004.00
1	Deputy Secretary of Banking	873.50	10,482.00
1	Deputy Secretary of Banking	825.00	9,900.00
1	Executive Assistant	363.75	4,365.00
5		<u>\$4,229.25</u>	<u>\$50,751.00</u>

Their duties have been stated to be:

Secretary of Banking

Administer the affairs of the Department of Banking in accordance with Article 16 of the Administrative Code of 1929 and amendments thereto.

Deputy Secretary of Banking, Sr. Grade

Deputy in charge and acting Secretary in the absence of the Secretary of Banking.

Overall supervision of all personnel of the various Divisions and Bureaus of the Dept. of Banking.

Hold hearings and conferences relative to all Banking Department matters.

Analyze reports and conduct correspondence in connection therewith.

Handle correspondence, answer inquiries and give advice by letter, telephone or in person on all subjects pertaining to Banking and work of the Department.

Make recommendations with regard to proposed legislation and policies of the Dept.

Discuss matters of mutual concern with Federal Agencies.

Do such special duties as are assigned by the Secretary of Banking.

Supervise work of examiners.

Promulgate, analyze and supervise the consummation of plans for the reorganization and rehabilitation of all institutions under supervision of the Banking Dept.

Secretary of the Banking Board.

Interview applicants for the position of Bank Examiner.

Confer with officials of State & National associations of the Banking Industry.



Deputy Secretary of Banking (\$10,482.00)

Hold hearings and conferences relative to Banking matters.

Analyze reports and conduct correspondence in connection therewith.

Handle correspondence, answer inquiries and give advice by letter, telephone or in person all subjects pertaining to Banking and work of the Department.

Make recommendations with regard to proposed legislation and policies of the Department.

Discuss matters of mutual concern with Federal Agencies.

Do such special duties as are assigned by the Secretary of Banking.

Supervise work of examiners through Chief Examiner.

Promulgate, analyze and supervise the consummation of plans for the reorganization and rehabilitation of Banking institutions.

Certify all formal documents, reports, etc.

Deputy Secretary of Banking (\$9,900.00)

Analyze bank examination reports.

Conduct correspondence with banking institutions relative to examination reports and banking problems.

Hold hearings and conferences relative to banking matters.

Discuss banking matters with Federal agencies.

Make recommendations with regard to proposed legislation and policies of the Department.

Recommend, analyze and supervise plans for merger, recapitalization and reorganization of banking institutions.

Do work as required by Secretary of Banking on staff assignments.

Handle miscellaneous correspondence; answer inquiries on subjects pertaining to banking and the work of the Department.

Supervise work of bank examiners through Chief Examiner.

Handle matters with respect to criminal investigations and prosecutions.



## Executive Assistant

Open official and personal correspondence of Secretary of Banking and attach pertinent correspondence and data.

Answer correspondence with or without dictation. Also dictation of speeches and articles for various banking publications. Transcribe notes.

Liaison between Secretary of Banking and members of his staff.

Arrange local and out of town appointments.

Place long distance telephone calls for the Secretary and handle certain other telephone calls for him.

Obtain hotel and transportation accommodations for the Secretary and occasionally for two Deputy Secretaries.

File official and personal correspondence of the Secretary.

Perform minor personal services for the Secretary.

Prepare and type monthly expense accounts for the Secretary.

Dictation of two Deputy Secretaries in the absence of secretaries regularly assigned to them

Miscellaneous: Certain confidential assignments of the Comptroller. Prepare letters and memoranda to Chief Examiners transmitting credentials and other material for the use of newly appointed Bank Examiners. Prepare Saturday morning skeleton force schedule. Post changes in Code Book. Proofreading.



## Part 2

EXECUTIVE BUREAU

As of September 15, 1952, this Bureau was staffed with the following employees,  
in charge of the Comptroller:

<u>Number</u>	<u>Payroll Title</u>	<u>Monthly Rate</u>	<u>Monthly</u>	<u>Salary Annual</u>
1	Comptroller	\$681.00	\$681.00	\$8,172.00
<u>Accounting &amp; Budget Div.</u>				
1	Sr. Auditor	428.00	428.00	5,136.00
1	Supervising Bookkeeper	363.00	363.00	4,356.00
1	Jr. Report Examiner	306.00	306.00	3,672.00
<u>1</u>	Prin. Steno. Secretary	313.50	<u>313.50</u>	<u>3,762.00</u>
4	TOTALS		1,410.50	16,926.00
<u>Reports &amp; Statistics Div.</u>				
1	Chief Supervisor Reports	508.50	508.50	6,102.00
1	Report Analyst	383.00	383.00	4,596.00
1	Sr. Statistician	363.00	363.00	4,356.00
1	Asst. Investment Analyst	294.00	294.00	3,528.00
1	Adv. Assignment Clerk	268.50	268.50	3,222.00
1	Prin. Steno. Clerk	213.50	213.50	2,562.00
<u>1</u>	Sr. Steno. Clerk	205.00	<u>205.00</u>	<u>2,460.00</u>
7	TOTALS		2,235.50	26,826.00
<u>Stenographic and Clerical Div.</u>				
2	Prin. Steno. Secys.	313.50	627.00	7,524.00
1	Adv. Steno. Secy.	277.50	277.50	3,330.00
2	Sr. Steno. Secys.	268.50	537.00	6,444.00
1	Prin. Typist Clerk	213.50	213.50	2,562.00
1	Adv. Mail Clerk	197.00	197.00	2,364.00
1	Sr. Steno. Clerk	188.50	188.50	2,262.00
1	Clerk	188.50	188.50	2,262.00
<u>2</u>	Sr. Janitress	142.00	<u>284.00</u>	<u>3,408.00</u>
<u>11</u>	TOTALS		<u>2,513.00</u>	<u>30,156.00</u>
23	GRAND TOTALS		\$6,840.00	\$82,080.00





Based on the staff assignments, 18% of the total number of employees and 13% of the total personal service expenditures of the Department of Banking are required for this Bureau.

The Executive Bureau, more aptly a general office or administrative bureau maintains the accounting records, personnel records, general correspondence and mail files, and provides stenographic, typing and clerical services for the Department at its headquarters office located on the fourth (4th) floor of the Education Building in Harrisburg, Pa.

#### Definition of Duties of the Technical Staff

The duties of the Comptroller and the technical staff are as follow:

##### Comptroller

General supervision over 34 employes engaged in tasks supervised by others and direct supervision over 5 employes engaged in the following activities:

- All accounting activities, personnel matters and purchases
- Typing, checking and preparation of examination reports
- Employee relations
- Statistical Department
- Filing of every kind, storage and disposition of old records
- Mailing Department
- Handling of Insurance, Bonding and related matters in connection with Closed Banks
- Prepare Budget Estimates for Department and Securities Commission
- Prepare Revenue Estimates for Department and Securities Commission
- Revision of Forms, Codes, etc.
- Analyzing and approving or disapproving Articles of Incorporation, Articles of Amendment, conversion, merger and consolidation, filed by State Banking Institutions
- Act for Secretary in matters connected with certain Closed Banks
- To do such special duties as are assigned by the Secretary of Banking
- Confer with Bankers and Attorneys along with Deputies on matters pertaining to Recapitalization Programs

##### Accounting and Budget Division

###### Senior Auditor

- Supervise and audit expenditures made by the Department of Banking and the Pennsylvania Securities Commission
- Supervise and audit the collection of revenue for the Department of Banking and Pennsylvania Securities Commission



Procurement of supplies and printing for the Department of Banking and Pennsylvania Securities Commission  
Prepare estimates of expenditures for the Budget Bureau  
Prepare estimates of revenue and receipts for Department of Revenue  
Prepare miscellaneous financial statements and reports

#### Supervising Bookkeeper

Act as agent for Revenue Department and transmit all moneys of Department of Banking and Pennsylvania Securities Commission  
Supervise all billing and collection of charges made by Department of Banking  
Maintain individual ledgers showing transactions with all Banking Institutions, Small Loan Companies, Credit Unions, Consumer Discount Companies, Pawnbrokers, and Building and Loan Associations  
Keep all general books of the Department of Banking in double entry  
Keep all general books for Pennsylvania Securities Commission  
Keep budget book for Department of Banking and Pennsylvania Securities Commission  
Supervise all payrolls of Department of Banking and Pennsylvania Securities Commission  
Supervise all expense accounts of Bank Examiners and B. & L. Examiners  
In charge of Withholding Tax  
Prepare budget reports monthly for Department of Banking and Pennsylvania Securities Commission  
Prepare trial balances of books monthly  
Prepare Compensation reports to Budget and Labor and Industry Departments monthly  
Keep Cash Book and verify balances monthly with Auditor General's Department  
Balance books and prepare balance sheet and reports for year's business  
Supervise and send out Overhead charges of Department of Banking annually

#### Jr. Report Examiner

In charge of store room - responsible for maintaining a perpetual inventory on Kardex File. Re-order supplies when needed - make new changes on Department of Banking forms when ordering  
Assist in the examination of Banks and Trust Companies and Saving Institutions  
Audit Job Bills on Banks, Banks and Trusts, Private Banks, Saving Institutions, Small Money Lenders, Consumer Discount Companies, Credit Unions, Pawn Brokers and Building and Loan Associations.  
Prepare total cost of each examination for billing.  
Examine each Monthly Distribution Sheet of the examiners against the Job Bill of the foregoing for daily costs other than wages.  
Assist in the taking of Trial Balances.  
Audit the Hotel and Transportation bills each month and prepare total cost of each bill for requisitioning check for payment.  
Responsible for keeping a record of each employees' Leave of Absence  
Assist in the preparing of special statistical data from time to time



Fill and ship orders for supplies from the Philadelphia and  
Pittsburgh offices  
General clerical work

## Reports and Statistics Division

### Chief Supervisor of Reports

#### Supervise:

- Checking of all bank examination reports for correctness and completeness
- Compilation of statistics from Reports of Condition (quarterly)
- Compilation of statistics from Reports of Earnings and Expenses (semi-annually)
- Typing of examination reports - Harrisburg District
- Mimeographing jobs
- Microfilming of examination reports and correspondence
- Mail and File room

#### Directly responsible for:

- Directors' examination reports-annually and continuous audit controls
- Oaths and rosters of Directors and officers - annually
- Reports of Condition and Reports of Earnings and Expenses
- Dividend Reports-quarterly, semi-annually and annually
- Securities pledged by Private Banks and deposited with State Treasurer
- Correspondence in connection with the above
- Dual control of passbooks and certificates of deposit representing moneys deposited by Secretary of Banking as Receiver
- Verification of funds for retirement of preferred stock by Banking Institutions

### Report Analyst

- Analyze examination reports of State Banking Institutions as prepared by the State Bank examiners
- Assist in examining of Banking Institutions

### Senior Statistician

- Assist with the tabulation of figures from call reports and earning, expenses and dividend reports from all state banks and in the preparation of all reports made therefrom for the use of all State, Federal and independent banking agencies.
- In emergencies assist in the examination of various state banks
- Assist Supervisor of Reports as required

### Assistant Investment Analyst

- Checking portions of bank examination reports and making necessary corrections
- Furnish security quotations when needed. Make check of comparative analysis covering each bank prepared by Chief Examiner of each district to assure correct record. Price securities pledged by private banks







### Advanced Assignment Clerk

Request correspondence relative to last examination from general files-List for Chief Examiner and for general office  
Receive current examination reports, job bills and correspondence, check and acknowledge. Prepare reports for checkers and type analysis schedule. When report is returned from checkers, make corrections and retypes, if any, and prepare for Deputies. When report is returned from Deputies, prepare and send copy to bank and to Federal Reserve Bank (if a member) Send office copy to files and copies to Chief Examiner for his files. Keep record of the above transactions.  
Type reports occasionally and other small duties

### Technical Staff Education and Experience Information

The personnel files in the Harrisburg office did not contain education and experience information for all of the technical staff similar to that which was available for the examining staff, but in those cases where it was available, it was noted the present experience factor is primarily the result of the average length of service which is twenty (20) years.

### Accounting and Budget Division

This division is responsible for maintaining all accounting records of the Department, including the Pennsylvania Securities Commission, and for the preparation of financial reports. Until 1919 the Department operated under appropriations and all revenues it collected were credited to the General Fund. Under the Act of 1919 the Department was put on a self-sustaining basis, except the Building and Loan Bureau, which became self-sustaining in 1933. All revenue is now credited to a fund known as the "Banking Fund" and all expenses of the Department are charged thereto, except in the case of the Pennsylvania Securities Commission. Revenue of the Securities Commission is credited to the Commonwealth's General Fund, from which it receives an appropriation to meet operating expenses.

In order to assure that operations are on a self-sustaining basis, the accounting records are kept on both a cash and an accrual basis, and all revenues and expenditures are credited or charged to the various functions performed by the Department.



Bills in lump sum are prepared to cover cost of examinations (salary and traveling expense of examiners) and rendered to each banking institution, building and loan association, credit union, small loan company, consumer discount company and pawnbroker examined. In addition, banking institutions, building and loan associations and credit unions are also billed in lump sum annually for overhead charges applicable to each group. (See Tables 1, 2 and 3).

All revenues collected by the Department are accounted for by this division and transmitted to the Department of Revenue, and it prepares all requisitions for the payment of payrolls and other expenses required to operate the Department. The accounts of the Department are audited annually by the Auditor General.

As the division provides accounting services for all bureaus and divisions in the Department, including the Securities Commission, the salaries are allocated to the several functions on the basis shown in Tables 1, 2 and 3.

#### Reports & Statistics Division

All bank examination reports, when received from the Chief Examiners, are analyzed and verified as to correctness and completeness by this division before they are reviewed by Deputies.

After the examination reports have been approved by the Deputies, final copies are prepared and sent to the bank examined, the Federal Reserve Bank (if a member), the Chief Examiner and one copy is retained in the files.

Quarterly reports of condition and semi-annual reports of earnings and expenses are obtained from all banks, from which statistics are compiled for use of State, Federal and independent banking agencies. In addition, the Division is responsible for obtaining and maintaining Directors' examination reports; oaths and rosters of directors and officers of all banking institutions; dividend reports; securities pledged by private banks and deposited



with the State Treasurer.

The salaries of all employees are included in overhead expenses and charged to banking institutions only.

#### Stenographic & Clerical Division

The five employees which make up the stenographic force included in this Division provide secretarial services to the Deputy Secretaries of Banking, the Comptroller, and the Chief Supervisor of Reports. The duties which they perform are related directly to the banking functions and their salaries are charged to overhead for banking institutions.

The clerical force, consisting of six employees, performs services affecting all divisions of the Department, such as handling all outgoing and incoming mail, telephone service, general filing, operation of addressograph, graphotype and mimeograph machines, and janitorial services. Consequently, their salaries are properly chargeable to the overhead costs of the several functions. The basis on which allocation of the salaries of these employees is presently made is shown in Tables 1, 2 and 3.

Since time did not permit making a detailed functional analysis of the 23 positions we are not in a position to state to what extent any of these three divisions of the Executive Bureau may be over-staffed or under-staffed.

#### Files and Records

We are of the opinion that the method used by the Department in filing current files and records, which are contained in metal file cabinets and docket files on the fourth floor, is good.

With respect to the files and records of the Bank Examination and Building & Loan offices in Philadelphia and Pittsburgh, it would appear that a uniform policy is not being followed regarding their retention and disposition.





A quick inspection was made of the considerable quantity of inactive and closed files and records of the Department which are stored in the loft (pent-house) of the Education Building, and contained in metal file cabinets and docket files, transfer files and on steel shelving.

We are not making any recommendations in connection with these matters, since a horizontal survey is being made of the entire situation with respect to the retention, preservation, disposition and microfilming of files and records.

The policy and plans of the Department for retention and destruction of departmental records have been stated to be as follows:

"Section 524 of the Administrative Code provides a method whereby records (correspondence, reports and other papers) no longer useful in the transaction of current or anticipated future work may be destroyed. This involves obtaining the approval of the Executive Board after the Pennsylvania Historical and Museum Commission have given their prior approval.

Section 525 of the same Code provides for microfilming such records. In connection with the above mentioned section Act No, 187 approved June 5, 1947, P. L. 407, is also applicable.

Several years ago the filing of records and their storage became quite a problem and steps were taken to establish a program of record preservation and/or destruction. Under the provisions of the above cited sections, the microfilming and destruction schedules are as follows:

Correspondence files and examination reports involving banking institutions were microfilmed for the years 1933 to 1944 inclusive, and these records were destroyed.

The same material for the years 1945 to 50 was retained. When this material becomes eight years old it will be microfilmed and destroyed. That schedule is now in effect with respect to the above mentioned items.

All our payroll records are microfilmed in their sixth year after which they are destroyed. We have our payroll records microfilmed for the years 1922 to 1946 inclusive.

Building and loan correspondence and examination reports are not being microfilmed presently but a plan of destruction has been established whereby the examination reports are cremated in their twenty-first year.

We have no plan of destruction for any of the records of our Consumer Credit Division with the exception of the applications of small





money lenders for a period of years which were microfilmed and destroyed.

In the Motor Vehicle Sales Finance Division we have a plan of destruction of records which reduces record maintenance to a minimum.

Many of our records, as you will recall, are retained in the Penthouse in more or less permanent storage and, although we have Executive Board approval to destroy a great volume of this material we have not as yet, because of the great inconvenience and labor involved, attempted to destroy any volume of it. Consideration is now being given by the writer to a thorough going-over the Penthouse with the idea in mind of cleaning out much of the material and establishing time tables for the retention or microfilming of the balance.

We have established time tables for the retention and disposal of our current files of miscellaneous reports and other papers required to be filed in this Department, not including, of course, the Building and Loan Bureau or the Consumer Credit Division.

The important problem of record retention and destruction has been receiving our careful attention and we have great hopes for its eventual solution. "

#### Allocation of Overhead Expenses

The expenses of the Department of Banking are divided into two main categories, namely, those involving salaries of examiners and their traveling expenses which are charged and billed to the institutions examined, except in the case of motor vehicle sales finance companies, installment sellers, and collector-repossessors; and those charged to overhead or supervision costs of the various functions.

In the case of banking institutions, building and loan associations, and credit unions the charges for overhead are billed on an annual basis, as of May 31. With respect to the other functions, such charges are covered by the revenues from license fees.

The present basis for allocating overhead and supervision costs to the various divisions is shown in Tables 1-3. However, institutions are presently billed for overhead costs on the basis of a graduated rate of charges applied to the assets of each institution, as follows:



1952 OVERHEAD

COMMERCIAL DEPARTMENT - TOTAL ASSETS

\$5.00 for each 100 thousand to 2 million  
4.00 for each 100 thousand to 5 million  
3.00 for each 100 thousand to 10 million  
2.00 for each 100 thousand over 10 million

TRUST DEPARTMENT - TOTAL ASSETS (Individual Trusts)

\$5.00 for each 100 thousand to 1 million  
4.00 for each 100 thousand to 3 million  
3.00 for each 100 thousand to 5 million  
2.00 for each 100 thousand to 10 million  
1.00 for each 100 thousand to 50 million  
.75 for each 100 thousand over 50 million

B & L ASSOCIATIONS

\$35.00 for the first 100 thousand  
5.00 additional for each 100 thousand to 1,999,999.  
4.00 additional for each 100 thousand to 2,999,999.  
3.00 additional for each 100 thousand to 3,999,999.  
2.00 additional for each 100 thousand to 4,999,999.  
1.00 additional for each 100 thousand over 5,000,000.  
25.00 for associations in liquidation

CREDIT UNIONS

\$35.00 for the first 100 thousand  
5.00 for each 100 thousand to 2 million  
4.00 for each 100 thousand to 5 million  
3.00 for each 100 thousand to 10 million  
2.00 for each 100 thousand over 10 million

In February of each year the Department estimates what the overhead costs will be for the current fiscal year, predicated on 9 months actual and 3 months estimated expenditures. From the rates presently in effect it can determine what will be received. If the revenue produced is substantially in excess of requirements, as was the case for several years during World War II, a percentage discount is allowed to bring receipts into line with estimated requirements. Conversely, if the scale of charges would not produce an amount sufficient to cover overhead costs, the amounts billed could be adjusted upwards on a similar basis. However, if the revenue produced by the scale of rates is substantially out of line with requirements for a number of years, the scale is then revised.

It should be pointed out here that the allocation of overhead is on a logical use basis from past experience, and is not determined from cost accounting records.



The Department does, however, maintain its books on an accrual basis, as well as a cash basis, in order that it may determine that each function is on a self-sustaining basis.

As shown in Table 1, receipts from institutions billed for overhead generally covered such costs on a cash basis for the five years ending May 31, 1952. Table 4 sets forth the revenues and expenses of each function on an accrual basis for the five year period from June 1, 1947 to May 31, 1952.

While the Department is so organized that salary costs for the most part can be readily identified as to the function to be charged, certain positions relate to all divisions of the Department. The basis on which such salaries are presently allocated is shown in Table 2.

As time did not permit us to make a detailed functional analysis of the operations of the Department, it would appear from the partial analysis we were able to make that the present basis for allocating overhead is fair and equitable.

A survey of state bank supervision made in 1949, by the State Bank Division of the American Bankers Association, disclosed that the departments of banking of the various States were financed as follows:

By charging examination costs and overhead to the institutions under supervision,.....	12 States
By charging examination costs only to the institutions under supervision and by legislative appropriation to cover overhead,.....	14 States
By legislative appropriation,.....	22 States
<hr/>	
Total	48

RECOMMENDATIONS

In order to avoid possible misunderstanding as to the manner in which The Department of Banking operates, and the basis on which institutions are





billed for direct examination and overhead costs, it is recommended, as a logical procedure, that:

1. Bills for direct examination costs be itemized to show:

Salaries of examiners; x men x days	\$
Transportation (rail,bus, personal auto, taxicab, airplane)	\$
Lodging and subsistence	\$
Miscellaneous	\$
	<hr/> <hr/>

2. Bills for overhead costs be supplemented with information as to how such charges are made up. If this method is not used it could be covered as a part of a digested annual report of the Department containing meaningful information and data as to its operation. The idea would be to have such report sent to all institutions and licensees under the jurisdiction of the Department.
3. In order to determine whether or not the present method of allocating overhead costs is equitable, consideration be given by the Department to keeping such costs on an actual basis for a period of a year. In this way it will be possible to determine whether the present method is sufficiently accurate and satisfactory. The results of such comparison could be incorporated in the suggested annual report, if one is to be issued.

(Note: Two Banking members of the Task Force expressed the opinion that these are matters of public relations and should be handled by the Department in whatever manner is deemed advisable.)



## Part 3

BANK EXAMINATION BUREAU

As of September 15, 1952, this Bureau, comprising the three district offices located in Harrisburg, Philadelphia and Pittsburgh, each under the direction of a Deputy Secretary and in charge of a Chief Examiner, was staffed as follows:

<u>Number</u>	<u>Payroll Title</u>	<u>Monthly Rate</u>	<u>Monthly Salary</u>	<u>Annual</u>
<u>Philadelphia District</u>				
<u>Bank Examination</u>				
1	Chief Bank Examiner	\$729.00	\$729.00	\$8,748.00
1	Chief Bank Examiner	632.50	632.50	7,590.00
4	Special Examiners	557.00	2,228.00	26,736.00
1	Special Examiner	529.50	529.50	6,354.00
1	Prin. Bank Examiner	476.50	476.50	5,718.00
2	Adv. Bank Examiners	428.00	856.00	10,272.00
3	Sr. Bank Examiners	412.50	1,237.50	14,850.00
5	Sr. Bank Examiners	397.50	1,987.50	23,850.00
3	Sr. Bank Examiners	383.00	1,149.00	13,788.00
1	Examiner	342.50	342.50	4,110.00
1	Examiner	322.50	322.50	3,870.00
<u>23</u>	<u>TOTAL Examination Force Phila.</u>		<u>10,490.50</u>	<u>125,886.00</u>
1	Sr. Steno. Secy	277.50	277.50	3,330.00
1	Sr. Steno. Clerk	205.00	205.00	2,460.00
1	Prin. Typist	205.00	205.00	2,460.00
3	Steno. Typists	188.50	565.50	6,786.00
<u>6</u>	<u>TOTAL Steno. Force Phila.</u>		<u>1,253.00</u>	<u>15,036.00</u>
<u>29</u>	<u>TOTAL Philadelphia District</u>		<u>11,743.50</u>	<u>140,922.00</u>
<u>Harrisburg District</u>				
<u>Bank Examination</u>				
1	Chief Bank Examiner (vacant)	-	-	-
4	Special Examiners	557.00	2,228.00	26,736.00
1	Prin. Bank Examiner	476.50	476.50	5,718.00
1	Adv. Bank Examiner	460.00	460.00	5,520.00
1	Adv. Bank Examiner	428.00	428.00	5,136.00
1	Sr. Bank Examiner	383.00	383.00	4,596.00
1	Examiner	342.50	342.50	4,110.00
1	Examiner	322.50	322.50	3,870.00
<u>10</u>	<u>TOTAL Harrisburg District</u> <u>(Examination Force only)</u>		<u>4,640.50</u>	<u>55,686.00</u>



<u>Number</u>	<u>Payroll Title</u>	<u>Monthly Rate</u>	<u>Monthly Salary</u>	<u>Annual</u>
<u>Pittsburgh District</u>				
<u>Bank Examination</u>				
1	Chief Bank Examiner	\$632.50	\$632.50	\$7,590.00
2	Special Examiners	557.00	1,114.00	13,368.00
4	Prin. Bank Examiners	476.50	1,906.00	22,872.00
1	Adv. Bank Examiner	444.50	444.50	5,334.00
2	Adv. Bank Examiners	428.00	856.00	10,272.00
2	Sr. Bank Examiners	397.50	795.00	9,540.00
2	Examiners	342.50	685.00	8,220.00
2	Examiners	322.50	645.00	7,740.00
16	TOTAL Examination Force - Pgh.		7,078.00	84,936.00
1	Adv. Steno. Secy.	285.00	285.00	3,420.00
1	Jr. Corres. Steno.	179.50	179.50	2,154.00
2	TOTAL Steno. Force - Pgh.		464.50	5,574.00
18	TOTAL Pittsburgh District		7,542.50	90,510.00
57	GRAND TOTAL Bank Examination Bureau		23,926.50	287,118.00

Based on staff assignments the percentage of the total number of employees and the percentage of total personal service expenditures of the Department of Banking are as follows:

	<u>% of Total Personnel</u>	<u>% of Total Personal Service Costs</u>
Harrisburg	8.8%*	8.8%*
Philadelphia	23.2%	22.6%
Pittsburgh	14.4%	14.6%

\*Does not include clerical and stenographic employees, all of whom are included in the Executive Bureau. Does include one (1) Adv. Bank Examiner, 50% of whose time is charged to Liquidation.

#### Bank Examinations

The Commonwealth is divided into three districts for examination purposes. Offices are maintained at Harrisburg, Philadelphia and Pittsburgh.

The Secretary of Banking makes his headquarters in Harrisburg, as do the three Deputy Secretaries, one of whom is designated for each examination district





to review reports of examinations of the State banking institutions of that district and to write such disciplinary letters as may be required. Also all applications for new bank charters, new or relocated branches, embezzlements, etc. are referred to the appropriate district offices for investigation and report.

#### Definition of Examiner Classifications

In order to clarify the examiner classifications shown in the preceding schedules, the Comptroller provided the following information.

##### Chief Bank Examiner

Supervise the examination of banking institutions  
Analyze and approve final report of each examination and review recommendations made  
Be responsible for all personnel in district office  
Conduct investigations of branch bank applications  
Hold conferences with officials of banking institutions

##### Special Bank Examiner

Take charge of examination of any size banking institution  
Analyze most involved credits  
Prepare report of examination, summarize data and condition of institution  
Act as temporary special deputy for the Secretary of Banking  
Make special investigations  
Make information in connection with criminal offenses of bank officers and employees

##### Principal Bank Examiner

Take charge of examinations of medium size institutions  
Analyze credits  
Prepare reports of examinations, summarize data and condition of institutions  
Assist special examiners by taking charge of most important departments of the institution  
Make special investigations of lesser importance  
Make information in connection with criminal offenses of bank officers and employees

##### Advanced Bank Examiner

Take charge of examinations of small size institutions  
Analyze credits  
Prepare reports of examination, summarize data and condition of institution  
Assist principal examiners  
Take charge of departments  
Verify investments and cash



Reconcile due to and due from banks  
Investigate accounting system and management  
Investigate miscellaneous assets and liabilities  
Make special investigations of lesser importance

#### Senior Bank Examiner

Take charge of examinations of smaller institutions  
Analyze credits  
Prepare reports of examinations, summarize data and condition of institutions  
Assist higher grade examiners to:  
Take charge of less important departments  
Check collateral  
Count cash  
Prepare data for schedules  
Reconcile inactive bank accounts  
Handle routine investigations

#### Bank Examiner

Assist senior, advanced and principal examiners  
Take charge of minor and routine functional units of bank departments  
Verify investments and cash  
Reconcile due to and due from banks  
Investigate miscellaneous assets and liabilities  
Investigate accounting system and management  
Make special investigations of lesser importance for the Secretary of Banking  
Make information in connection with criminal offenses of bank officers and employees

#### An Advanced Bank Examiner on special duty

#### Time

50%

Banking Department

Assist Chief Examiner Harrisburg, by preparing examination reports, work papers, and forms for each examination. Check the reports of these examinations for errors or omissions, file the reports, work papers, forms and correspondence. Keep sufficient supplies on hand for the examiners.

50%

Closed banks and building and loan associations

Present to the Secretary of Banking all complaints in action to quit titles, petitions for approval of compromise of mortgage or judgment liens and certificates of possession for these assets, when necessary, also assignments of mortgages or judgments of record. Search the records of liquidation in connection with each item.

Keep all files and records, bank accounts, post ledgers and prepare checks.

Search records of liquidation in connection with each request concerning accounts in closed institutions, and when necessary prepare and file forms of claim with the Bureau of Escheats, for unclaimed liquidating dividends.



### Examiner Education and Experience Information

From the personnel files in the Harrisburg office such record of educational background as was available was transcribed and reviewed. The available records disclose that, while there is no stated requirement as to a minimum of education for a candidate for a position as bank examiner, in general the records show to a varying but fair degree, sufficient scholastic background to warrant the employment of those men who are now examiners.

The prior experience records reviewed listed also sufficient contact with business and banking to warrant assumption that the then candidates could be trained in bank examination work without too long a period of basic training. It is in order to point out that a candidate must be politically sponsored. However, the Department requires the candidate to take and pass a well devised written examination of 135 questions, in four parts, viz: general; arithmetic, business and commerce; logic; and banking practices and procedures. The Department advised that there have been some instances where it has been required to employ a candidate who failed to pass the written examination referred to, upon the insistence of political sponsors.

A review of the examining staff discloses in general the need for attracting younger men. The average years of service is as follows:

	<u>Average Years of Service</u>	<u>Age</u>	<u>Average Age</u>
3 Chief Bank Examiners	24	50 - 56	52
11 Special Bank Examiners	21	44 - 68	54
6 Principal Bank Examiners	10	36 - 65	54
6 Advanced Bank Examiners	10	41 - 60	48
14 Senior Bank Examiners	8 <sup>1</sup> / <sub>2</sub>	37 - 71	50
8 Bank Examiners	8 <sup>1</sup> / <sub>2</sub>	26 - 61	44
1 Adv.-Spec. Duty Bank Examiner	28	63	63
<u>49</u> ALL EXAMINERS	<u>13</u>	<u>26 - 71</u>	<u>50</u>

Inquiries as to this average long term of service, despite the factor of political sponsorship (recent adjustment has provided considerable improvement in salary schedules), disclosed the fact that it has been possible to maintain





this record of service and the concurrent experience factor, only because of the relatively low salary schedule of compensation paid in the field of banking in the Commonwealth, which has served to lessen the urge for examiners to accept a position in banking.

Examinations of Banks, Trust Companies and Savings Banks, etc.

The schedules of the Department disclose for a five year period the following:

From	<u>Number of institutions subject to examinations</u>	<u>Number of examinations made</u>
6/1/47 to 5/31/48	356	306
6/1/48 to 5/31/49	356	337
6/1/49 to 5/31/50	352	351
6/1/50 to 5/31/51	351	336
6/1/51 to 5/31/52	344	322

In addition to the usual routine of examination, we are advised that the examiners of this division also examine, for the Motor Vehicle Sales Finance Division, all banks and trust companies which have been especially licensed as sales finance companies. There were 130 such examinations made in the year ending September 30, 1951, and 132 in the year ending September 30, 1952. This method is followed because the financing of the sale of motor vehicles has become a part of banking practice, and bank examiners must, of necessity, examine such departments as a part of their regular examination procedure. The bank examiners have been especially indoctrinated as to the legal requirements of the Motor Vehicle Sales Finance Act. Thus the one examination amply and fully meets all requirements.

Despite the amendment to Section 401 of the Department of Banking Code, effective March 31, 1943, providing that the department shall not be required to make examinations more than once every two years, the above schedule discloses a good record.

However, as this provision ceased to be effective as of October 28, 1952, and because of an increase in volume of work necessitated by the large expansion



in banking services, we are advised there is need for six (6) additional examiners to bring the examiner complement up to a sufficient number to assure examination of all institutions annually.

#### Joint Examinations

State banks and trust companies are either members of the Federal Reserve System (and subject to examination by the Department of Banking and the examiners of the Federal Reserve Bank of the reserve district wherein they are located) or are non-members. In the latter instance, as most banks in the Commonwealth are insured as to deposits by the Federal Deposit Insurance Corporation, such insured non-member banks are subject to examination by the Department of Banking and by the examiners of the Federal Deposit Insurance Corporation. Of the 344 institutions, only 17 (of which 9 are private banks and 2 are employees' mutual banking institutions), are not members of the Federal Reserve System or insured by the Federal Deposit Insurance Corporation.

Though both the Federal Reserve System and the Federal Deposit Insurance Corporation have the right to make separate examinations, for the most part, their examiners and those of the Department of Banking make examinations jointly.

The Department reported that, for the period from June 1, 1951 to May 31, 1952, of the examinations which could have been jointly made, 89 were made independently. The Deputies believe this to be an unusually large number, and was caused by requirements of examiners' time to cover merger applications, liquidations, embezzlements, etc. Usually only about 10 to 15 percent of all possible joint examinations are made on an independent basis. This is caused by reason of the examination of the very large State member-banks, which require the services of all the State and Federal Reserve Bank examiners for a fairly long period. In such instances the Federal Deposit Insurance Corporation examiners will make certain examinations independently. State examiners must then later also make independent examinations of such institutions.



We were also advised (and this was corroborated during visits made to State banks, trust companies and savings banks, as shown later in this report) that, in general, except for some duplication of work on loan appraisals, valuation of investments, and earnings expense and dividend reports, the State and Federal agency examiners cooperate fully to avoid overlapping of effort. It is appropriate here to mention the Federal agencies do not make charges for their part of joint examinations, and to the extent their examiners are of assistance to State examiners, the direct cost of examination made by the Department of Banking is thereby reduced.

We were further advised (corroboration by Federal Agency Chief Examiners) the Department of Banking has the responsibility for initiating the time of examinations, but that actually they are arrived at by joint agreement, based also on when sufficient examiners will be available for a given examination.

Once the examination is under way, the examiners in charge (State and Federal Agencies) make their own designations and, as corroborated by visits to bankers -- discussed later -- there is most satisfactory cooperation and comparatively little overlapping of procedure. When either group finishes its requirement as to the completion of the examination, we are advised it does not wait for the other group to finish. In all instances this is, of course, when all further purpose of joint procedure can no longer be served. Except for one bank in McKean County and two in Clearfield County (all three members of the Federal Reserve System) joint examination of Federal Reserve members in the Pittsburgh examination area are made with examiners from the Federal Reserve Bank of Cleveland, while all other member banks in Pennsylvania are subject to joint examination with examiners of the Federal Reserve Bank of Philadelphia. The examination districts of the F.D.I.C. (headquartering in Columbus, Ohio) conform to the examination districts of the Pennsylvania Department of Banking. Each examination district of the F.D.I.C. has a supervisory examiner in charge, who works out examination schedules with the Chief Bank Examiner of each examination district of the Department of Banking.





## State Examination Districts

We discussed the efficacy of the division of the Commonwealth into the present three districts and the Deputies and the Chief Bank Examiner of the Philadelphia District were able to demonstrate to our satisfaction the value and need of the present divisions. Since this study was started the vacancy of the Chief Bank Examiner at Harrisburg has been filled by moving the Chief Bank Examiner from Pittsburgh to Harrisburg and sending one of the special examiners from the Harrisburg district to be Chief Bank Examiner at Pittsburgh.

## Contact with State Banks, Trust Companies and Savings Banks Subject to Joint Examinations by the State Examiners and Those of Federal Agencies

Section 302 of the Department of Banking Code prohibits the publication or divulging of any information contained in or ascertained from any examination or investigation made by the Department. This source of information as to the scope and quality of examinations was not available to the Task Force Committee and Research Staff.

In order to obtain the reaction of bank management in general as to the scope and effectiveness of examinations by examiners of the Department of Banking, large, medium-size and smaller banks were visited in the Philadelphia, Pittsburgh and Harrisburg areas which included twenty-two (22) commercial banks and trust companies and four (4) of the mutual savings banks. In addition, eight (8) banks and trust companies in the northern tier of the State were contacted.

While the approach differed somewhat in general, basically the following information resulted:

A. Scope and quality of examination. Generally there was complete agreement that both the scope and quality of examinations presently being conducted were of a character of which the officials of the banks were satisfied. The feeling was uniformly expressed that the scope and quality of examinations had been greatly improved over the past fifteen to eighteen years, so that managements were in accord that their cost was amply



justified and the examinations of great value, even in the instances where effective audit control, within some of the institutions visited, was in operation.

There was some expression of opinion that the Federal agency examiners tended to emphasize management factors and trust administration to a greater degree than is done by State examiners. But these opinions were stated with due realization that State examiners are charged with a more detailed overall examination in the direction of the protection of the funds of the general public entrusted to a given bank, while the interest of the Federal agency examiners lay in the direction of liability for deposit insurance coverage or, as to Reserve Bank examiners, maintenance of quality of management of the banking system as a whole.

In several instances suggestions were made which are more fully discussed under paragraph D of this section.

B. Comparative quality of examiners. Reaction was general that so far as the top examiners are concerned, State bank examiners compare favorably with those of the Federal Reserve Banks and the F.D.I.C. As to other examiners, some opinions were expressed in favor of the Federal agency examiners, this being ascribed to the somewhat higher compensation paid these men. But for the most part management expressed satisfaction as to the general quality and efficiency of all examiners, State and Federal.

C. Overlapping of effort in joint examinations. There was unanimity of opinion expressed as to this, to the effect that State and Federal agency examiners work in such close harmony that, except for the men in charge with whom the results of the examination are discussed, management cannot tell them apart. There was a general understanding that while necessary duplication exists as to appraisals on loans, listing of investments, analysis of earnings, expenses, dividends, etc., for the most part other-



wise the State and Federal examiners cooperate so closely that the resultant examinations are considered entirely satisfactory, with no lost motion apparent.

D. Suggestions. An opportunity was provided for bank management to make such suggestions as were felt might reduce time required to complete examinations and/or to increase their effectiveness. The following resulted:

1. Examination of mortgage papers on loans made prior to previous examinations. It was felt that, where there is reasonable audit control within the institution or where there is a system of verification of mortgage loans, it should be necessary only to check out old exceptions, post mortgage cards carried by the examiners, and test-check older loan papers, thereby saving considerable time now expended in re-examining all such older mortgage papers. Of course, all mortgages made since the previous examination would be subject to complete check, with new cards added to complete records of the examiners. (Note: The Department of Banking advises that examiners in charge of examinations have been granted leeway in deciding the extent to which the checking of all papers may be necessary. Perhaps some further follow-up on this matter at examiner conferences would be helpful in saving time and examination costs.)

2. Listing all collateral loans in detail. At present all collateral loans - whether or not secured by stock exchange collateral - are copied in detail. Naturally, where a loan is under-margined or when the collateral is not readily marketable and a further check of valuation is necessary, listing should be made for further reference - but much time could be saved if loans obviously satisfactorily secured were not copied in detail. (Note: The Department of Banking believes there is need to have complete copies of all collateral loan records for





further reclassification because of various codes and regulations and because examiners may need to refer to these records when completing reports at the office. It is suggested that most of this work on loans secured by readily marketable collateral could be done satisfactorily at the bank if men were trained in requirements of regulations, etc. Naturally the time required to hold collateral records under control might be affected adversely, but the opinion was expressed that it takes more time to copy than to check for violations.)

3. Run off of all depositors ledgers. Opinion was expressed that complete listing of all ledgers proves little where there is not verification of balances--and that by such running of tapes there is a responsibility incurred which is not met by the taking of a mere proof. (Note: This is controversial, of course, for it is recognized that many defalcations involve depositors ledgers. Although Section 401 of the Department of Banking Code does not specify liabilities shall be proven, the Department believes that more than a run-off proof is accomplished if the examiner also scans the ledger sheets and that there is also a deterrent to manipulation if the staff of the bank knows the ledgers will be subject to proof. The suggestion is, therefore, included but with a full realization that there is a fair question as to whether any time saved would be justified. Where the Department has agreed (as provided in Section 507C of the Banking Code as to Directors or Trustees examinations) to accept a certificate by an auditor or comptroller of an institution employing a continuous audit control, or similar system, in lieu of such an examination, discretion could well be given to the Chief Examiner of the District as to whether a run-off of ledgers should or should not be made. Also, as far as the savings banks are concerned, it seems they are very much interested in having the simultaneous run-off taken by the examiners.)



4. Directors or trustees examinations. Suggestion was made that Section 507 of the Banking Code be amended to provide more specifically what such examination should cover, either by the board or for the board by outside accountants. The comment was made that often to cut the cost of such examinations, factors such as verification, are reduced or eliminated to the detriment of the purpose and value of the examination. (Note A: This could well be considered an attempt to manage by law or regulation. As an aid to supervision, a sound examination by directors or outside accountants is of value, but the line of demarcation between good management by knowledge and efficiency versus by law or regulation requires careful consideration.) (Note B: The Banking members of the Task Force stated this matter deserves careful consideration but are not prepared to make any specific recommendations at this time.)

The Need for a Well Organized and Effective State Banking Department, Adequately Manned, with an Examining Staff of Continuing and Increasing Efficiency.

The importance of the stressing, by the Secretary and Deputies of the Department, of the need for attracting younger men to the field of bank examination as a career, is fully recognized.

The Pennsylvania Bankers Association has also stressed the need for the elimination of political factors insofar as the Department and its deputies and examiners are concerned, and the need for placing the examining staff on a career basis.

Management of the banks visited, as stated earlier in this report, was also uniformly in favor of whatever steps may be necessary to achieve the adoption of a satisfactory merit system so that the position of State bank examiner shall be eliminated from the need for political sponsoring or other political requirements, and placed on a career basis.



In addition to these favorable influences it is well to point out another factor considered by many to be of even greater importance. Our country has made its greatest progress under a system of checks and balances as between Departments of the Federal Government and as between various States operating as a whole in Federal matters and maintaining sovereignty insofar as matters pertaining to each State are concerned.

It is well recognized that one of the greatest of weaknesses of the economy of any country, as far as exposure to subversive elements is concerned, is to have only one banking system serving that country. As far as commercial banking is concerned, as an offset to the above mentioned weakness, the commercial banking system of the U.S.A. is divided roughly into about 6,000 national banks (chartered and examined by the Comptroller of the Currency at Washington) and about 9,000 State banks and trust companies, divided among the 48 States and chartered and examined by the State banking departments of those States. It is known as and is called the Dual Banking System.

The American Bankers Association and many of the bankers associations of the various States have duly recognized the need for maintaining strong commercial banking systems, chartered and examined by the various States.

In a study such as this, while it is recognized that under the laws of Pennsylvania the Department of Banking is self-supporting, there still remains the need for making any recommendations which will serve to increase the efficiency of the Department and thereby further strengthen the State banking system in the United States.

#### THE BANKING BOARD

Under Section 501 of the Department of Banking Code, provision is made for the creation of a Banking Board (created by Act of July 2, 1935, P.L. 525). This board is to consist of eleven (11) members, one of whom is the Secretary of





Banking, who acts as the Chairman. Four (4) members are appointed by the Governor and the remaining six (6) are appointed by the Governor from nomination lists of five (5) persons each, to be sent to him by the Pennsylvania Bankers Association, representing the following groups of the Association:

Groups one (1) and two (2)

Groups three (3), four (4), five (5) and six (6)

Groups seven (7) and eight (8)

Terms of office of members are for eight (8) years or until their successors have been appointed and have qualified. Vacancies occur only by death, resignation, or when a member shall have been absent, without excuse by a majority of attending members, from six (6) consecutive meetings of the board.

No restriction is placed on the Governor as to his appointment to fill vacancies which occur with respect to the four (4) members appointed only by him. But if a vacancy occurs of a member appointed from nominations submitted to him, as noted above, he must fill such vacancy by appointing an attorney, officer, employee, director or trustee of a corporation or person subject to the supervision of the Department of Banking having its principal place of business within the same groups of the P. B. A. as was represented by the list of nominations from which was appointed the member whose office became vacant. However, when nomination lists are prepared by the various groups of the Pennsylvania Bankers Association, they are not similarly restricted in their selections to persons from institutions which are supervised by the Department.

Since its inception in 1935 (first meeting September 11, 1935) the board has held forty-five (45) meetings (including one held October 29, 1952) as follows:



1935	-	4	
1936	-	5	
1937	-	5	
1938	-	6	
1939	-	1	
1940	-	1	
1941	-	1	
1942	-	2	
1943	-	3	
1944	-	1	
1945	-	1	
1946	-	2	
1947	-	2	
1948	-	2	
1949	-	1	
1950	-	4	
1951	-	1	
1952	-	<u>3</u>	(as of November 19, 1952)
TOTAL		<u>45</u>	

The minutes of the first meeting held on September 11, 1935 note that the two powers then legally assigned to the board (removal of directors, officers, etc. and consideration of applications for branches) were outlined and defined. In addition it is noted that a "more important function" is that of counseling and advising the Secretary of Banking as to the administration of the Department of Banking in its supervision of banks in the Commonwealth, and to encourage the appointment of capable officials and employees. Matters of interest rates on deposits were discussed and applications of several national banks for branches were considered.

Minutes of the meetings held during the period 1935 through 1938 disclose that the above mentioned conception of the purpose of the Banking Board was continued, and administrative matters were apparently a part of the agenda of most meetings.

Time available did not permit more than a scanning of the minutes of meetings held after 1938 until those held in 1952. But generally discussion of matters pertaining to the administration of the Department did not appear to have been covered, and considerations were limited more to matters on which the board is legally required to act.



The minutes of the meetings on March 12 and August 6, 1952 denote a return to some degree to the discussion of administrative matters. After considering and acting on applications for branches and the problem confronting the Department and the board as to the use of armored trucks for the purpose of accepting deposits and the cashing of checks, the board also considered reported defalcations, the difficulty to secure competent personnel as examiners, salary standards and civil service, and the report of the Secretary of Banking on salary adjustments. We are advised that action at the meeting held October 29, 1952 was for the most part limited to consideration of applications for branches.

At the meeting held on March 12, 1952 the Secretary of Banking presented to the members of the Banking Board an outline of their powers and duties which are as follows:

Powers and Duties of Banking Board

1. To hear any attorney, officer, employe, director or trustee, who has been ordered by the Department to appear before the Banking Board, show cause why he should not be removed from his office or position for continuing to violate any law or continuing unsafe or unsound practice, in accordance with the provisions of Section 501 of the Department of Banking Code.  
  
In connection with any hearing or investigation, the Board has power:
  - a. To issue subpoenas requiring the attendance of offenders, production of pertinent books and papers.
  - b. To subpoena witnesses set forth in the offender's application.
  - c. To question witnesses under oath or affirmation and to examine such books and papers.
2. In accordance with the provisions of Section 204 of the Banking Code, the Banking Board must pass upon every application for the establishment of branch banks in the State of Pennsylvania, except the establishment of branches in cities of the first and second class (Philadelphia and Pittsburgh).
3. Under the provisions of Sections 203 and 204 of the Banking Code, the Banking Board must approve changes of location of banking institutions from one city, borough or township to another.
4. The Banking Board must approve the change of place of business of any branch offices. (Excepting those within city limits of Philadelphia and Pittsburgh.)





5. Under the provisions of Section 908 of the Banking Code, the Banking Board must fix the amount of legal reserve funds State banking institutions must carry and the composition thereof. The Banking Board may increase or decrease the prescribed amount of the reserve fund provided that the reserve fund cannot be increased to more than double the maximum amount prescribed by law, nor may it be decreased to less than the minimum amount prescribed by law.
6. Under the provisions of Section 1109 of the Banking Code, the Banking Board may promulgate rules and regulations regarding the establishment and administration of common trust funds established and operated by State banking institutions with fiduciary powers. Inasmuch as the Federal Reserve Board has issued a comprehensive and sound set of rules and regulations through Regulation F covering the operation of common trust funds, the Banking Board has not promulgated its own rules and regulations.

It would appear that the Secretary of Banking and his subordinate officers could find much value in the administration of the Department through the active assistance of a dynamic, articulate and aggressive board. Its members represent a varied experience in bank management which can be of considerable aid in evaluating the many and varied problems which require consideration and solution.

It is with these factors in mind appropriate recommendations are presented below.

#### RECOMMENDATIONS

1. That careful consideration be given to the suggestions made by bank management, even though, because of the limited time, such suggestions do not reflect the opinion of bank management as a whole.
2. With due recognition of some of the difficulties involved as to schedules, etc., that there be conferences of examiners held as often as permissible, but at least annually. The value of these conferences is readily recognized by the Secretary of Banking, his Deputies and Chief Bank Examiners. They help to increase the efficiency and uniformity of examination procedure and their costs seem to be warranted.



(Note: At present the Secretary of Banking, the Deputies and Chief Bank Examiners meet about four (4) times annually. Where decisions affect examination procedure, they are covered by memoranda from the Chief Bank Examiners to the examiners. There have also been examiner conferences biennially.)

3. That legislation be enacted amending the Department of Banking Code to give the Banking Board additional powers, such as:

(a) To review, with power of decision, the approval or disapproval of applications for charters, mergers, consolidations, conversions and reorganizations.

(b) Such others, with power of decision, as may be deemed necessary in support of the duties and responsibilities of the Secretary of Banking. Typical examples of such powers are:

(1) Recommendations as to pending legislation affecting banks, banks and trust companies, trust companies, and savings banks.

(2) Changes of policy affecting the closing of banks, banks and trust companies, trust companies, and savings banks, and of the disposition of their assets.

(3) Changes of policy in matters affecting the procedure of the Department where joint agreement with the Federal Deposit Insurance Corporation, the Federal Reserve System, or the Comptroller of the Currency are involved.

(4) Changes of policy in matters of personnel of the Department.

4. That legislation be enacted amending Section 501 of the Department of Banking Code to provide that:

(a) The Banking Board shall meet not less than quarterly, and at such other times as deemed necessary by the Secretary of Banking.



- (b) In the absence of the Secretary of Banking, a Deputy Secretary shall be designated to act as Chairman of the Banking Board.
- (c) When a member of the Banking Board shall have been absent, without excuse, from fifty percent (50%) of the regular and special meetings held in any calendar year, his office shall be declared vacant, and the member so notified in writing by the Chairman.

(Note: Two Banking Members of the Task Force expressed their opinion to the effect that matters pertaining to the Banking Board should emanate from the Department of Banking and the Pennsylvania Bankers Association.)

#### CONCLUSIONS

We find the constructive attitude of the Secretary of Banking in his support of the Deputies and Examiners and his desire to improve their general status, is having an excellent effect on their morale.

The representatives of banks with whom we discussed these matters, expressed satisfaction with the manner in which the Secretary of Banking, his Deputies, Chief Bank Examiners, and the members of the examining staff with whom they have come in contact, are performing their duties.





BUILDING AND LOAN BUREAU

As of September 15, 1952, this Bureau, comprising three district offices located in Harrisburg, Philadelphia and Pittsburgh, under the direction of the Director, was staffed as follows:

<u>Number</u>	<u>Payroll Titles</u>	<u>Monthly Rate</u>	<u>Salary</u>	
			<u>Monthly</u>	<u>Annual</u>
<u>1</u>	Director	\$681.00	<u>\$681.00</u>	<u>\$8,172.00</u>
	<u>Philadelphia Office</u>			
	<u>Building and Loan Examination</u>			
1	Special B & L Examiner	\$557.00	\$557.00	\$6,684.00
3	Special B & L Examiners	529.50	1,588.50	19,062.00
1	Prin. B & L Examiner	508.50	508.50	6,102.00
3	Prin. B & L Examiners	476.50	1,429.50	17,154.00
1	Adv. B & L Examiner	460.00	460.00	5,520.00
4	Adv. B & L Examiners	428.00	1,712.00	20,544.00
<u>13</u>	TOTAL - B & L Examinations - Phila.		<u>6,255.50</u>	<u>75,066.00</u>
	<u>Stenographic</u>			
<u>1</u>	Sr. Steno. Secy	268.50	<u>268.50</u>	<u>3,222.00</u>
<u>14</u>	Total - Phila. Office		<u>6,524.00</u>	<u>78,288.00</u>
	<u>Harrisburg Office</u>			
	<u>Building and Loan Examination</u>			
1	Special B & L Examiner	529.50	529.50	6,354.00
1	Adv. B & L Examiner	444.50	444.50	5,334.00
<u>2</u>	TOTAL - B & L Examinations - Harrisburg		<u>974.00</u>	<u>11,688.00</u>
	<u>Stenographic</u>			
1	Adv. Steno Secy.	285.00	285.00	3,420.00
1	Spec. Steno. Clerk	268.50	268.50	3,222.00
<u>2</u>	TOTAL Stenographic - Harrisburg		<u>553.50</u>	<u>6,642.00</u>
<u>4</u>	TOTAL - Harrisburg Office		<u>1,527.50</u>	<u>18,330.00</u>



<u>Number</u>	<u>Payroll Title</u>	<u>Monthly Rate</u>	<u>Monthly</u>	<u>Salary Annual</u>
<u>Pittsburgh Office</u>				
<u>Building and Loan Examination</u>				
2	Prin. B & L Examiners	\$476.50	\$953.00	\$11,436.00
1	Adv. B & L Examiner	444.50	444.50	5,334.00
3	TOTAL - Pittsburgh Office		1,397.50	16,770.00
22	TOTAL - Building and Loan Bureau		\$10,130.00	\$121,560.00

Based on staff assignments 17.6% of the total number of employees and 19.5% of the total personal service expenditures of the Department of Banking are required for this Bureau.

We ascertained that as of December 31, 1951 the 772 Building and Loan Associations (of which 124 are insured by the Federal Savings and Loan Insurance Corporation) include assets in the amount of \$645,000,000, most of which are in turn represented by funds belonging to the general public of the Commonwealth and as such, entitled to effective protection by sound and efficient examination procedure.

#### Definition of Classifications

The duties of the Director and examiner classifications are as follow:

##### Director B & L BUREAU

Administer Building and Loan Bureau, which is charged with the supervision of all state-chartered building and loan associations in the Commonwealth of Pennsylvania  
Interview and correspond with officers and directors of active associations and trustees of liquidating associations, giving instructions, suggestions and information with regard to accounting and legal questions and business problems  
Analyze financial statements  
Review reports of examination of associations having problems of any nature  
Handle correspondence relating to associations  
Set policies to guide examiners. Direct work of examiners  
Act as Secretary to the Pennsylvania Building and Loan Board  
Hold hearings



Pass upon and make recommendations with respect to proposed legislation  
Advise Secretary of Banking on matters pertaining to closed banking institutions and closed building and loan associations.

Special B & L Examiner, Sr. Grade

Time  
80%

Supervise the business of the Building and Loan Bureau, as it pertains to the 425 associations located in this district. This includes matters received by telephone, mail, and personal visits by the public and B & L officers and directors. Review reports of examinations as presented by the Examiners to see that the requirements of the Building and Loan Code are being complied with, and that any exceptions to the same are properly presented by the Examiners. After the reports are in proper form a supervisory letter is written to the Board of Directors of each association calling their attention to any matters not in keeping with the Code, or suggestions which may be beneficial in the management of their association with regard to better public relations. In order to get the desired changes as recommended in the supervisory letters, it is necessary in certain cases to meet with the Directors in order to obtain the desired results. A file is kept on these supervisory letters and any criticism is followed up until the question is brought to a satisfactory conclusion.

18% Review the annual report of each association as prepared by the auditors at the close of each fiscal year. This entails checking of the general trend of the association, cost of operations, reserve situation, method of profit distribution and see that the procedure is in keeping with the requirements of the Building and Loan Code

2% Handle matters pertaining to liquidating associations not yet completed. Matters such as satisfactory settlements of old mortgage claims and satisfaction of the same.

Principal B & L Examiner (Special Duty)

Assignment of examiners to examine approximately 425 Building and Loan Associations, at least once a year in the Philadelphia District. The Philadelphia District comprises, Philadelphia, Montgomery, Chester, Delaware and Bucks counties.

10% Examiners are also assigned to examine associations in Berks, Blair, Bradford, Erie, Lancaster, Lackawanna and Luzerne counties. The complement of Building and Loan examiners is 13. Assignments to examiners are followed up periodically to insure prompt turning in of completed reports.

A card system is also maintained showing due date of each of the 425 Associations in the Philadelphia District.

All completed examination reports are reviewed for mathematical accuracy, clarification of comments, omission of code violations, surety bond coverage, excess borrowing, sufficiency of reserves, etc.

90% Reports are then transmitted to typists for typing  
After the reports are typed, an analysis of each report is then





made, showing various percentages, contingent and undivided profit to assets, cash liquidity, reserves to capital and other pertinent data.

Also numerous telephone inquiries from attorneys, banks as to associations liquidated. Also active associations. There are personal interviews.

Examiners' monthly expense accounts and distribution sheets are carefully reviewed and approved.

#### Special B & L Examiner

Take charge of special examinations and examinations of larger associations

- Verify cash receipts and disbursements and reconcile with depository

- Verify and analyze income and expenses

- Prepare financial statement and schedules

- Verify or spot-check assets and liabilities

- Examine mortgages, deeds, loan applications, insurance policies, fidelity bonds, etc.

- Check ledgers for accuracy

- Read by-laws and review minutes

- Analyze condition of association and write report

Make special investigations for the Secretary of Banking

Make information in connection with criminal offenses of officers and employees of building and loan associations

#### Principal Bldg. & Loan Examiner

Take charge of examinations of large building and loan associations

- Verify cash receipts and disbursements and reconcile with depository

- Verify and analyze income and expenses

- Prepare financial statement and schedules

- Verify or spot-check assets and liabilities

- Examine mortgages, deeds, loan applications, insurance policies, fidelity bonds, etc.

- Check ledgers for accuracy

- Read by-laws and review minutes

Make special investigations

Make information in connection with criminal offenses of officers and employees of building and loan associations

#### Advanced Bldg. & Loan Examiner

Take charge of examinations of building and loan associations

- Verify cash receipts and disbursements and reconcile with depository

- Verify and analyze income and expenses

- Prepare financial statement and schedules

- Verify or spot-check assets and liabilities

- Examine mortgages, deeds, loan applications, insurance policies, fidelity bonds etc.



Check ledgers for accuracy  
 Read by-laws and review minutes  
 Analyze condition of association and write report  
 Make special investigations  
 Make information in connection with criminal offenses  
 of officers and employes of building and loan associations

#### Examiner Education And Experience Data

A review of such records of the building and loan examiners as were available was made. For the most of these examiners, their educational background was such that training as examiners was in order, but also it should be stated that their experience background did not compare favorably with that of the examiners of the Bank Examination Bureau.

The examiners and members of the staff must be politically sponsored. Of the examiners in the Philadelphia district it was stated, six (6) are committeemen. It was also learned that on certain occasions some of the Philadelphia examiners performed political duties and that when this occurred the time consumed was charged to the overhead expense of the bureau. From this it would appear that B & L examiners are prone to be involved in political activities.

A review of the average age of the examiners of this Bureau, as shown below, serves to emphasize the need for attracting some additional younger men.

	<u>Average Years of Service</u>	<u>Age</u>	<u>Average Age</u>
1 Director	20 *	45	45
1 Special B & L Examiner Sr. Grade	27	69	69
1 Principal B & L Examiner (special duties)	24	60	60
4 Special B & L Examiners	24	50-69	58
5 Principal B & L Examiners	16	57-75	63
7 Advanced B & L Examiners	17	44-63	54
<u>19</u>	<u>19</u>	<u>44-75</u>	<u>58</u>

\* Includes 14 yrs. in closed Bank Division

At present no examination is given applicants for the position of Building and Loan examiner similar to that required of candidates for the position of bank examiner. We are advised one is now being formulated by the Director of the Bureau.



## Examination of Building and Loan Associations

The 772 State chartered Building and Loan Associations in the Commonwealth are located as follows:

Philadelphia District --	In Philadelphia -----	317
	In contiguous	
	counties -----	<u>107</u>
		424
Pittsburgh District ----	Counties of Perna.	
	west of Cambria Co. ---	226
Harrisburg District ----	All other sections	
	of the Commonwealth ---	<u>122</u>
		<u>772</u>

Of the above total, 301 associations are members of the Federal Home Loan Bank of which the liabilities to shareholders of 124 associations are insured by the Federal Savings and Loan Insurance Corporation.

It was stated that it requires from 2 to 5 days to complete the examination of the average association. For the larger ones, it may require varying time up to six weeks.

It was also noted that about 75% of the associations are operated on a part time basis and that arrangements must be made in advance in order to examine them. The element of surprise is lacking in many of these cases.

Records of the Bureau as to examinations completed over the past five years disclose the following

<u>Period</u>	<u>Number of Institutions</u>	<u>Examinations (see note below)</u>
1/1/47 to 12/31/47	789	967
1/1/48 to 12/31/48	786	838
1/1/49 to 12/31/49	784	961
1/1/50 to 12/31/50	778	776
1/1/51 to 12/31/51	772	598





Note: The foregoing number of institutions includes only active associations while the record of examinations includes also examinations of associations in liquidation which were:

12/31/47	237
12/31/48	159
12/31/49	102
12/31/50	74
12/31/51	54

We are advised by the Department that the discrepancy in examinations for the period ending 12/31/51 resulted from a shortage of available examiners plus the need for using time in investigating serveral defalcations.

Examinations are stated to be current for the present period, with the exception of the Pittsburgh District. The addition of one examiner as of August 16, 1952 and another as of October 1, 1952 it is believed will serve to correct the examination shortage in this district.

#### Operation of Bureau---Examination Report Procedure

Philadelphia: At this office the Special B & L Examiner (Senior Grade) is in charge, whose duties and activities have been outlined. He is assisted by a Principal Examiner whose duties have also been outlined. As between these two examiners and the Director at Harrisburg there is constant communication. All reports except those of the Pittsburgh District are typed in Philadelphia.

Pittsburgh: The Director makes assignments for this office from Harrisburg. All reports are typed in Pittsburgh and then sent to the Director for analysis and such disciplinary letters as are required.

Harrisburg: All examinations are assigned by the Director, but the Principal B & L Examiner in Philadelphia records all time schedules etc. The Director analyzes reports and writes disciplinary letters for the district.

#### Joint Examinations

As already stated, there are 124 State chartered building and loan associations which are members of the Federal Home Loan Banking System and whose shareholder liabilities are insured by the Federal Savings and Loan Insurance



Corporation. Examination of these 124 insured associations are conducted jointly by the State examiners and those of the Home Loan Bank Board. Dates of examinations are arranged by agreement.

Five copies of the examination report are typed on H.L.B.B. forms, signed jointly by the State and H.L.B.B. examiners in charge. Disposition of these copies is as follows:

- 2 copies to Federal Home Loan Bank at Pittsburgh, the President of which is designated as the supervisory agent for the H.L.B.B. One (1) copy is sent, with the disciplinary letter, to the association under examination. One (1) copy is retained by the supervisory agent.
- 1 copy to the chief supervisor of the H.L.B.B. in Washington with a copy of the disciplinary letter.
- 1 copy to the district examiner of the H.L.B.B.
- 1 copy to the Pennsylvania Department of Banking together with a copy of the disciplinary letter. If the State Building and Loan Bureau wishes to add anything, a separate letter is written. In any event the insured association is advised by the Bureau of the receipt of the report of the examination from the supervisory agent of the H.L.B.B.

The associations under examination are requested to make three (3) copies of their reply, disposition of which is as follows:

- 1 copy to the Building and Loan Bureau of the Department of Banking
- 2 copies to the supervisory agent at Pittsburgh, of which one copy is sent to the chief supervisor in Washington.

While it has been the practice for the State and Home Loan Bank Board to assign an equal number of examiners to joint examinations, it has not always been possible because sufficient examiners of either group may not be available at the time of the proposed examination. This was particularly true in the Pittsburgh district where, as already stated, there was a shortage of State B & L examiners. The addition of the two State B & L examiners in the Pittsburgh district, it was stated, will serve to make possible assignments as noted above.



Arrangements are now underway whereby the State B & L Bureau and the H.L.B.B. will each assign seven (7) examiners to conduct joint examinations. Under this plan the H.L.B.B. examination division will continue to type joint reports and the disposition of disciplinary letters will continue as noted above, until the State examination report forms are revised as outlined later in this report.

For joint examinations the State sends a bill for direct examination costs as does the H.L.B.B. The State Department of Banking also sends a bill to each association for its pro-rata share of the general overhead of the Department allocable to the Building and Loan Bureau. The H.L.B.B. does not send such a bill as its flat charge of \$40.00 per day per examiner includes salary, travel, maintenance and overhead.

No unnecessary overlapping of examination procedure was reported, with the usual exception that the examiners in charge for the State and H.L.B.B. must eventually jointly discuss any findings with officers of the association under examination.

#### Review With Building and Loan Association Management

Section 302 of the Department of Banking Code prohibits the publication or divulging of any information contained in or ascertained from an examination or investigation made by the department. This source of information as to the scope and quality of examinations was not available to the committee and the research staff.

In order to obtain the reaction of building and loan management in general as to the scope and effectiveness of examinations by the Building and Loan Bureau, some of the larger associations were visited in Philadelphia, Harrisburg and Pittsburgh; also representatives of the Pennsylvania Savings and Loan League.

The following is a summary of reactions obtained:

1. Scope and Quality of Examinations: The opinion was expressed by the larger associations that, because a sufficient number of examiners were not available, the examination of their associations consumed a long period (up to six weeks),





with attendant annoyances and the usual delays which are a part of any examination. The matter of time and inconvenience, not costs, was paramount here. It was stated that the State examination procedures needed to be revised and brought up to date. Reference was also made to the need for revision of the call report to provide data similar to that contained in the monthly report now required by the H.L.B.B. It was felt that examinations should include verification of a reasonable percentage of loans and of shareholder accounts of associations which do not have an adequate internal audit procedure which includes verification of such accounts.

(Note: We were advised by the Director of the Bureau that new examination forms were in preparation similar to those now in use by the H.L.B.B. examiners, which will result not only in improving the examination procedure but in making the examination more comprehensive and complete. When these forms are completed, we understand the B & L Bureau will send its own examination report, together with its own disciplinary letter covering all examinations, whether joint or independent.)

2. Comparative Quality of Examiners: Reaction was general that the competence of the State examiners did not compare favorably with that of H.L.B.B. examiners. It was felt that because H.L.B.B. examiners are under civil service, and therefore more carefully selected as to fitness and ability, and the fact they have been continuously in charge of examinations of larger associations, they are more experienced and better qualified to conduct such examinations. Consequently, insofar as joint examinations are concerned it would seem that State examiners take a subordinated role.

(Note #1: It was developed that there have been no examiner staff conferences in the B & L Bureau. It was felt that improvement could result as to examination procedure and staff morale if such conferences were held as often as permissible, but at least annually.)



(Note #2: Reference is made to the average age of B & L examiners as noted on page 45, in order to re-emphasize the need for attracting young and capable men to the examining staff so that they may be trained as to the responsibilities required, to examine, independently, uninsured State associations as well as to take a more important role in joint examinations of insured associations.)

3. Installment Share Sinking-Fund Loans: Several associations suggested that legislation prohibiting such loans should be made effective for the reason that in case of difficulties, the mortgagor-shareholder, having paid on his shares consistently, does not have the right of set-off and, therefore, would still owe the entire amount of his mortgage.

(Note: It was pointed out that many State associations have changed over to direct reduction loans and that others are doing so. There has been attempt at legislation, but this has been successfully fought by some associations in counties contiguous to Philadelphia. If the Bureau of Internal Revenue rules that dividends on mortgage-pledged shares are not to be allowed as a deduction for income tax purposes, such ruling would serve practically to eliminate this type of loan.)

4. Differing Examination Periods: It was stated there is lack of uniformity as to the periods covered by examinations, some being conducted from the last examination, while others are from the time of the last annual closing audit. The opinion was expressed that for the purpose of uniformity and to be certain the State examinations are complete, all examinations should be from the date of the last examination.

(Note: We were advised by the Director of the Bureau that examinations cover the period from the date of the previous examination for associations in the western part of the State---west of Johnstown. He also advised that the new forms now in preparation will require that the examination period be from the date of the previous examination. He stated also that examinations from



the date of the last audit were made only when an examination was made 3 or 4 months after such audit, but that even when the period covered is from the last audit, all mortgages taken since the last examination are checked out.)

With respect to items 5, 6, and 7 which follow, we recognize these matters in a sense are beyond the scope of the functional study of the Department of Banking. It is felt, however, that they are of significant importance and since they reflect the opinion of management of some building and loan associations, we believe they should be included in this report.

5. State Legislation Regarding B & L Associations: Attention was directed to the cooperation extended to the Pennsylvania Savings & Loan League by the Federal Home Loan Bank of Pittsburgh. At no cost to the League, counsel for the F.H.L.B. is and has been active in assisting in the drafting of proposed legislation and in tax matters requiring representation at Washington. While some concern was expressed by some of the smaller associations as to possible influence of the F.H.L.B. on legislation affecting state chartered associations, this was amply offset by the statement that all proposed legislation is carefully examined and approved by the Legislative Committee of the League before presentation to the legislature. It was proposed that it would be of value if the Building & Loan Bureau collaborated to a greater extent with the League as to the consideration and drafting of proposed legislation.

We were advised the State and Federal associations in the western part of the state are cooperating through the medium of one association. Those in the Eastern part have three associations---Federal savings and loan, State insured, and State uninsured. It was stated these three are now improving their cooperation through the medium of the Savings and Loan Council of Philadelphia and Vicinity.





(Note: It seems pertinent to mention here that the State Director of the Building and Loan Bureau has always been invited to meetings of the various associations and that the present Director is attending such meetings. There is apparently in the making a better basis for sound and effective state-wide cooperation in the savings & loan and building & loan fields.)

6. Dividend Rates: Some concern was expressed as to the present tendency toward increasing rates of dividends to shareholders, it being felt that in some instances the decision as to such increases were for purposes of reducing Federal income taxes.

It seems in order to point out that in one way or another the collection of Federal taxes will be effected. Accordingly those associations which have increased their dividend rates with tax reduction in mind, may eventually find it difficult to pay both the tax and the increased dividend, or embarrassing should it become necessary to reduce the dividend rates.

(Note: As long as an association has set up proper reserves for protective purposes, decision to increase their rate of dividends remains a matter of management, and as the dividends received by shareholders are subject to Federal income tax, it would seem the Bureau of Internal Revenue would not be greatly interested. Whether an increased rate can be maintained, based on the income obtainable from invested assets less required reserves, would seem to be a matter for the careful consideration of management. Perhaps where additional earnings may be available for dividend purposes, payment to shareholders of an extra dividend might be a better and more conservative procedure.)

7. Competition With Federal Savings And Loan Associations: Opinion was expressed that, because of the broader privileges given Federal savings & loan associations as to type of mortgages and branch powers, if the State building and loan associations are not given similar powers, many of them will be forced to become Federal associations.





(Note: The State associations were originally formed for the purpose of assisting in home financing on an installment basis. Whether the powers now available to the Federals are sound is an open question. On the other hand, the facts stated above require careful consideration, for there can be no doubt that larger State associations would be encouraged to take Federal charters, leaving the building and loan associations of the State limited to the smaller ones. It should be obvious to the commercial and savings bankers of the State, that the present larger State building and loan associations would provide greater competition as Federal savings and loan associations than as State chartered associations.)

#### THE BUILDING AND LOAN BOARD

Under section 501 of the Department of Banking Code provision is made for the creation of a Building and Loan Board, (Created by Act of April 22, 1937, P. L. 337). This board is to consist of nine (9) members, one of whom is the Secretary of Banking who acts as Chairman. Two (2) members are appointed by the Governor and the remaining six (6) are appointed by him from candidates submitted by the Pennsylvania Savings and Loan League. Their terms of office are for eight (8) years or until their successors have been appointed and have qualified. One board member is deceased and the terms of three (3) members have expired. Board meetings are at the call of the Chairman.

The Building and Loan Board is at present limited in its powers to "hear any attorney, officer, employe, director or trustee of any building and loan association, subject to the supervision of the Department of Banking, who shall have been ordered, by the Department of Banking to appear before such board, to show cause why his office or position should not be declared vacant. The board shall also exercise such additional powers as shall be given to it, and shall act upon such matters as shall be referred to it by any laws of this Commonwealth."



Since its inception in 1937 the Board has held thirteen (13) meetings as follows:

1937	-	3
1938	-	3
1939	-	1
1940	-	1
1941	-	2
1942	-	0
1943	-	2
1944	-	1
		<u>13</u>

Despite the limitation of its powers, as noted above, the following are some of the matters discussed, and in some instances acted upon, at the meetings:

1. Capitalization of Dividends (4/11/44)
2. Suggested outlawing of sinking fund loans (4/11/44)
3. Shareholder votes based on amount of investment rather than number of shares subscribed (4/11/44)
4. Pending legislation affecting building & loan associations (various years)
5. The proposed State Insurance Fund for building & loan associations (7/31/40, 4/1/41 and 6/2/41)
6. Status of liquidation of closed associations and disposition of certain assets (10/5/38 & 1/4/39)
7. Personnel of the Bureau and harmful effect of political influence (10/5/38)
8. New examination and call report forms (11/17/37)
9. Closing of weak building & loan associations approved (9/22/37)

The last meeting of the Building and Loan Board was held on April 11, 1944.

It is in order to point out that the Secretary of Banking and the Director of the Bureau could find the advice and counsel of members versed in practical experience in the conduct of building and loan business of value. (See recommendation #6.) Also, because of the present competitive position of the State chartered associations (to which reference has already been made in this report) the effect on the morale of management of these associations to have knowledge that these matters are having consideration by such a board would be of value.



## RECOMMENDATIONS

1. That careful consideration be given to the suggestions made by management of building and loan associations as previously outlined.
2. That the Building and Loan Board be reactivated and the Pennsylvania Savings and Loan League be requested to submit a new list of candidates for appointment thereto.
3. That legislation be enacted to provide that the Building and Loan Board shall meet not less than quarterly, and at such other times as deemed necessary by the Secretary of Banking.
4. That, under a proposed plan of reorganization of the Department of Banking (see page 85 ), the Building and Loan Bureau be placed under the direct supervision of a Deputy Secretary of Banking, who shall act as Chairman of the Building and Loan Board in the absence of the Secretary of Banking.
5. That section 501 of the Department of Banking code be amended so that when a member of the Building and Loan Board shall have been absent without excuse from fifty percent (50%) of regular and special meetings held in any calendar year, his office shall be declared vacant, and the member so notified in writing by the Chairman.
6. That legislation be enacted to give the Building & Loan Board additional powers, such as:
  - (a) To review, with power of decision, the approval or disapproval of applications for charters, mergers, consolidations, conversions and reorganizations.
  - (b) Regulation as to reserves to be required before dividends may be declared.
  - (c) Regulations as to dividends.





(d) Such other powers, as may be deemed necessary in support of the duties and responsibilities of the Secretary of Banking and the Director of the Building & Loan Bureau. Typical examples are matters which were discussed and sometimes acted upon by the Board in 1944 and prior years as previously outlined.

7. That staff conferences of examiners be held as often as permissible, but at least annually.



Part 5

CONSUMER CREDIT DIVISION

As of September 15, 1952, this Division was staffed with the following employees in charge of the Chief:

<u>Number</u>	<u>Payroll Title</u>	<u>Monthly Rate</u>	<u>Monthly</u>	<u>Salary</u> <u>Annual</u>
1	Chief, Consumer Credit	\$681.00	\$681.00	\$ 8,172.00
1	Special Examiner	557.00	557.00	6,684.00
2	Advanced Examiner	428.00	856.00	10,272.00
1	Examiner	363.00	363.00	4,356.00
2	Sr. Steno. Secy	268.50	537.00	6,444.00
1	Sr. Corres. Steno.	268.50	268.50	3,222.00
1	Prin. Steno. Clerk	247.50	247.50	2,970.00
<u>9</u>			<u>\$3,510.00</u>	<u>\$42,120.00</u>

Based on staff assignments, 7.2% of the total number of employees and 6.8% of the total personal service expenditures of the Department of Banking are required for this Division.

Definition of Classifications

The duties of the Chief of the Division, and Examiner classification, are as follows:

Chief, Consumer Credit Division

Administer and enforce the statutes governing institutions under the supervision of the Consumer Credit Division which includes Small Loan Act licensees, Consumer Discount Companies, Credit Unions and Pawnbrokers in Pennsylvania. Receive, investigate and act upon applications for licenses and charters; establish policy of Division and promulgate rules and regulations governing operations of such supervised organizations; interview and correspond with operators, attorneys and clients of such businesses; furnish interpretation of legal and general provisions of statutes governing such businesses; analyze reports of examinations and reports of financial statements and correspond with institutions relative thereto; investigate violations of laws; hold hearings and institute prosecutions. Supervise and assign all duties of office personnel and



field examiners in the Division engaged in making statutory examinations and investigations of institutions under the jurisdiction of the Consumer Credit Division.

Time

50%	Small Loan Companies
35%	Consumer Discount Companies
10%	Credit Unions
5%	Pawnbrokers

Special Examiner

Conduct examinations and write up reports of examinations of Consumer Credit Agencies operating under the Credit Union Act, approved May 26, 1933 as amended; Consumer Discount Company Act approved April 8, 1937, and Small Loan Act approved June 17, 1915 as amended

Conduct special investigations and write up reports of special investigations of credit unions, consumer discount companies and small loan act licensees

Investigate character, reputation, integrity of applicants for licenses and make surveys to determine public necessity for proposed additional consumer credit facilities

Investigate information and complaints filed with the Department pertaining to alleged violations of law governing consumer credit agencies; obtain evidence for and testify in connection with criminal prosecutions against illegal consumer credit agencies

Assist Chief of Division in checking, analyzing and tabulating call reports filed by all consumer credit agencies subject to supervision of Department

Handle special assignments relative to pawnbrokers

Substitute for Chief of Division during vacation period or other absence

Advanced Examiner

Conduct examinations and write up reports of examinations of consumer credit agencies operating under the Credit Union Act, approved May 26, 1933 as amended; Small Loan Act approved June 17, 1915, as amended

Conduct special investigations and write up reports of special investigations of credit unions and small loan companies

Investigate character, reputation, integrity of applicants for licenses and make surveys to determine public necessity for proposed additional consumer credit facilities

Investigate information and complaints filed with the department pertaining to alleged violations of law governing consumer credit agencies; obtain evidence for and testify in connection with criminal prosecutions against illegal consumer credit agencies

Handle special assignments relative to pawnbrokers



### Examiner

Conduct examinations and write up reports of examinations of pawnshops operating under the Pawnbrokers License Act, approved April 6, 1937

Conduct special investigations and write up reports of special investigations of pawnbrokers

Investigate character, reputation, integrity of applicants for licenses as pawnbrokers

Investigate information and complaints filed with the Department pertaining to alleged violations of law governing pawnbrokers; obtain evidence for and testify in connection with criminal prosecutions against illegal pawnbrokers

### Examiner Education and Experience Data

A review of the records of the examiners of the Division was made. Their educational background is uniformly satisfactory. As the major part of the duties of these examiners is of a policing nature, their experience records are such as to readily qualify them to carry out their duties in a satisfactory manner.

The following is a summary as to age and service records:

	<u>Average Years of Service</u>	<u>Age</u>	<u>Average Age</u>
1 Special Examiner	16	45	45
2 Advanced Examiners	12 $\frac{1}{2}$	49 - 56	52
1 Examiner	3	30	30
	<u>11</u>	<u>30 - 56</u>	<u>45</u>

At present no examination is given applicants for the position of Examiner in the Consumer Credit Division similar to that required of the candidates for the position of bank examiner.





Examinations of the Various Institutions And Licensees Supervised  
by the Consumer Credit Division

The several acts require that the Department of Banking shall investigate the various licensees, except in the case of credit unions which shall be examined. For purposes of this report investigations shall be referred to as examinations. The number of institutions and licensees and examinations made are as follows:

<u>Small Loan Companies</u>	<u>Number</u>	<u>Examinations</u> (Annual examinations required by law)
7/1/47 to 6/30/48	536	314
7/1/48 to 6/30/49	567	286
7/1/49 to 6/30/50	607	293
7/1/50 to 6/30/51	645	345
7/1/51 to 6/30/52	693	333
<u>Credit Unions</u>	<u>Number</u>	<u>Examinations</u> (Annual examinations required by law)
7/1/47 to 6/30/48	92	75
7/1/48 to 6/30/49	90	90
7/1/49 to 6/30/50	87	88
7/1/50 to 6/30/51	88	86
7/1/51 to 6/30/52	88	88
<u>Consumer Discount Companies</u>	<u>Number</u>	<u>Examinations</u> (Optional)
7/1/47 to 6/30/48	380	185
7/1/48 to 6/30/49	381	229
7/1/49 to 6/30/50	384	234
7/1/50 to 6/30/51	395	235
7/1/51 to 6/30/52	409	227
<u>Pawnbrokers</u>	<u>Number</u>	<u>Examinations</u> (Optional)
10/2/46 to 10/1/47	100	93
10/2/47 to 10/1/48	103	95
10/2/48 to 10/1/49	104	82
10/2/49 to 10/1/50	102	145
10/2/50 to 10/1/51	102	133

(Note: We were advised the discrepancy in legally required examinations of small loan companies resulted from a shortage of examiner personnel. The employment of two additional examiners was approved in January 1952. It was reported that two



individuals who were acceptable and who amply met the minimum requirements could not obtain political sponsorship, and that one who reported for duty, with political sponsorship, was found to be unsatisfactory.

We recommend in order that the Consumer Credit Division shall be placed in position to meet the legal requirement as to examinations, the necessary steps to add sufficient examiners be taken without further delay.

#### Operation of the Consumer Credit Division

This division operates from the Harrisburg office of the Department of Banking. It is in charge of a division chief, who reports directly to the Secretary of Banking, or in his absence to the deputy so designated. The duties of the chief and examiners have already been fully outlined.

We are advised that where small loan companies and consumer discount companies are operated at the same locations, examinations are made at the same time, and separate charges are assessed. No regulations have been promulgated for credit unions or consumer discount companies, and the regulations for small loan companies are in need of revision.

#### Review with Licensees

Because of the policing nature of the examinations made by the Consumer Credit Division, (with the exception of credit unions) it was felt that no purpose would be served in making direct contacts with the various licensees. However, contact was established with the representatives of certain of the associations of small loan companies and consumer discount companies, which resulted in the following suggestions:

1. That the bills for direct cost of examinations be itemized and in the case of credit unions, the bills for overhead charges be supplemented with information as to how such charges are made up.
2. The question was raised as to the need for charging licensees for the costs of examinations when there is an ample surplus from license fees being assessed,



and collected. This would require a change in existing legislation.

3. It was suggested, in connection with the requirement for the filing of license bonds, that such bonds should be required only for each newly organized consumer discount company or small loan company or for each new branch thereof, but that this requirement shall be eliminated after a period (three years recommended) or until they have proved their worth to the satisfaction of the Department of Banking.

(Note: It was pointed out that over a period of 35 years there has been no claim filed under any of these license bonds.)

#### Office Space

It would appear, from observation only, that there is need for additional office space for this division. However, it is not possible to express a definite opinion at this time as to the actual needs without a careful and complete analysis of the utilization of all space which is now being occupied by the Department of Banking.

#### Files and Records

All of the active files and records of the Division are contained on the fourth floor and inactive and closed files in the loft (pent house) of the Education Building.

It may be possible, as part of a sound and well-planned records administration program, providing for careful evaluation, retention, preservation, microfilming and disposition, to dispose of the inactive files and records.

#### RECOMMENDATIONS

1. At the time legislation was being considered and drafted by the Joint State Government Commission to regulate the sale of motor vehicles, the plan was to place the consumer discount companies, small loan companies and pawnbrokers, as well as motor vehicle sales-sales finance companies, installment sellers and collector repossessioners all under the administration of the Pennsylvania Consumer





Credit Commission. This was not done, and under a proposed plan of reorganization of the Department of Banking (see page 85 ) it is recommended the Consumer Credit Division, including the Motor Vehicle Sales Finance Division, be placed under the direct supervision of a Deputy Secretary of Banking.

2. The examination of credit unions is of a type similar to those being conducted by the Bank Examination and Building and Loan Bureaus. Examinations being conducted by the Motor Vehicle Sales Finance Division and by the Consumer Credit Division as to small loan companies, consumer discount companies and pawnbrokers are of a policing nature. For purposes of uniformity as to type of examinations, it is recommended that the examination of credit unions be placed under the supervision of one of the bureaus making protective examinations of institutions accepting monies from the general public.

### 3. Consumer Credit Board

Under the provisions of the Act of July 2, 1935, P.L. 525 and the Act of April 22, 1937, P.L. 337, the Banking Board and Building and Loan Board respectively were created (Section 501-Department of Banking Code). The membership of these Boards is comprised, for the most part, of representatives of banking institutions and building and loan associations. No such provision is made for the creation of a similar board to represent the consumer credit licensees, viz: consumer discount companies, small loan companies, pawnbrokers, sales finance companies, installment sellers and collector-repossessors.

It is recommended that the Department of Banking Code be amended to provide for the creation of a Consumer Credit Board and that the general provisions of Section 501 of the Code be followed as to:

- (a) The appointment of membership on this board, giving due effect to proper representation of the various sections of the consumer credit business as to multi-unit, sectional-unit and single-unit licensees.



- (b) Terms of office.
- (c) Quorum.
- (d) Vacancies.
- (e) Compensation.
- (f) Personal expenses.

The object of the Consumer Credit Board would be to implement the intent as well as the spirit of the legislation governing consumer credit licensees, thus giving them a voice in their own destinies. It should be charged with the responsibility of review, execution and maintenance of a high standard for the consumer credit business.

Typical examples of the responsibilities of such board would be:

- (1) The power to remove officials for improper conduct or continuous violation of the law.
- (2) To review, with the power of decision:
  - (a) The issuance of licenses.
  - (b) Rejections or revocations of licenses.

The Secretary of Banking, or in his absence the Deputy Secretary of Banking in charge of the Consumer Credit Division and Motor Vehicle Sales Finance Division (Consumer Credit Bureau) shall be Chairman of the Board. Meetings are to be subject to the call of the Chairman and are to be held not less frequently than quarterly. When a member has been absent without excuse from fifty percent (50%) of regular and special meetings held in any calendar year, his office shall be declared vacant and the member so notified in writing by the Chairman.

4. That the necessary additional examiners be employed without delay, so that the Division will be in a position to meet its legal requirement as to examinations.

5. That additional office space be provided for the Division, which should be determined by a careful and complete analysis of the utilization of all space



which is now being occupied by the Department of Banking.

6. That careful consideration be given to the suggestions made by representatives of certain of the associations of small loan companies and consumers discount companies.

7. That the files and records of the Division be carefully evaluated, as part of a sound and well-planned records administration program, with the view of microfilming and disposing those which are inactive and no longer useful or necessary.



MOTOR VEHICLE SALES FINANCE DIVISION

As of September 15, 1952, this Division was staffed with the following employees, in charge of the Chief:

<u>Number</u>	<u>Payroll Title</u>	<u>Monthly Rate</u>	<u>Salary</u>	
			<u>Monthly</u>	<u>Annual</u>
1	Chief Motor Vehicle Sales Fin.	\$632.50	\$632.50	\$7,590.00
1	Adv. Examiner	444.50	444.50	5,334.00
1	Adv. Examiner	428.00	428.00	5,136.00
1	Sr. Examiner	397.50	397.50	4,770.00
1	Sr. Examiner	383.00	383.00	4,596.00
1	Examiner	342.50	342.50	4,110.00
1	Jr. Examiner	294.00	294.00	3,528.00
1	Sr. Steno. Secy.	247.50	247.50	2,970.00
1	Sr. Steno. Clerk	179.50	179.50	2,154.00
<u>9</u>			<u>\$3,349.00</u>	<u>\$40,188.00</u>

Based on staff assignments, 7.2% of the total number of employees and 6.4% of the total personal service expenditures of the Department of Banking are required for this Division.

Definition of Classifications

The duties of the Chief and the Examiner classification are as follows:

Chief, Motor Vehicle Sales Finance Division

Supervise work of the Motor Vehicle Sales Finance Division

Hold hearings and conferences relative to all matters subject to provisions of Motor Vehicles Sales Finance Act  
Handle correspondence, answer inquiries and render decisions on all subjects pertaining to the aforesaid Act  
Make recommendations with regard to proposed legislation and policies of the Dept.

Discuss matters of mutual concern with Federal Agencies  
Do such special duties as are assigned by the Secretary of Banking

Supervise work of Examiners and all office personnel of Division

Make special field investigations of licensees subject to the Act

Confer with representatives of associations of Auto Dealers, Finance Companies and others interested in advancing the auto industry





### Advanced Examiner

Take charge of a number of examiners in the work of examining the books, accounts, papers, records, documents and files of Sellers, Holders, Sales Finance Companies, Collector-Repossessors licensed under the "Motor Vehicle Sales Finance Act" approved June 28, 1947.  
Take charge of a number of examiners in the work of investigating the business and affairs of persons engaging in the business contemplated by the Act whether or not licensed by the "Administrator".  
Outline procedure for examination and investigation as required by Chief of Division  
Make information in connection with violation of provisions of Act  
Assist as needed in office of Motor Vehicle Finance Division

### Senior Examiner

Examine the books, accounts, papers, records, documents and files of Sellers, Holders, Sales Finance Companies, Collector-Repossessors licensed under the "Motor Vehicle Sales Finance Act"  
Investigate the business and affairs of persons engaging in the business contemplated by the Act whether or not licensed by the "Administrator"

### Examiner

Examine the books, accounts, papers, records, documents and files of Sellers, Holders, and Collector-Repossessors licensed under the "Motor Vehicle Sales Finance Act"  
Assist in examination of Sales Finance Companies  
Assist as needed in office of Motor Vehicle Sales Finance Division

### Junior Examiner

Examine the books, accounts, papers, records, documents and files of Sellers, Holders, Collector-Repossessors licensed under the "Motor Vehicle Sales Finance Act"  
Assist in investigation of the business and affairs of persons engaging in the business contemplated by the Act whether or not licensed by the "Administrator"

The Chief of the Division reports directly to the Secretary of Banking and in his absence to the Deputy so designated.

An examination of the personnel records as to educational background of the examiners disclosed that four of the six were college graduates, the others having graduated from high school. As to prior experience, the records disclosed that all examiners had sufficient experience with companies engaged in the finance business as to warrant their employment as examiners.



The Division does not give an examination to applicants for the position of examiner as is now done by the Bank Examination Bureau in the case of applicants for bank examiner. However, a practical examination consisting of thirty-three (33) questions relating to the Motor Vehicle Sales Finance Act must be passed by all new examiners before they are assigned to make any examinations of licensees. As in the case of the other divisions of the Department, examiners and other members of the staff require political sponsorship.

The average age and length of service of the examiners of this Division is shown below

	<u>Average Years of Service</u>	<u>Age</u>	<u>Average Age</u>
2 Advanced Examiners	4 1/2	36-54	45
2 Sr. Examiners	2 3/4	39-52	45
1 Examiner	1 3/4	32	32
1 Jr. Examiner	<u>3/4</u>	<u>28</u>	<u>28</u>
<u>6</u> Average for all Examiners	<u>3</u>	<u>28-54</u>	<u>40</u>

#### Licenses Issued

Since 1947, companies engaged in the business of financing motor vehicles sales are required to be licensed by the Motor Vehicle Sales Finance Division. Such companies must obtain a license and pay a license fee for each office operated. For the year ending September 30, 1952, the number of licenses issued were as follows:

#### 1. SALES FINANCE

Total Licenses Issued	645	
A. Finance Companies	237	
B. National Banks	223	
C. State Banks	132	
D. Out-of-State Finance Companies	44	
E. Out-of-State Banks	<u>9</u>	
	645	\$64,500

#### 2. COLLECTOR-REPOSSESSOR

Total Licenses Issued	15	\$ 1,500
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#### 3. INSTALLMENT SELLERS

Total Licenses Issued	5305	<u>\$53,050</u>
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Total Amount \$119,050



In addition, each application for license as a sales finance company and as a collector-repossessor must be accompanied by a bond executed by a reputable surety company in the amount of \$5,000, except that a bank so licensed may file a bond executed in its own behalf in lieu of one issued by a surety company.

#### Examination of Licensees

While the Department of Banking is required to make annual examinations in the case of banking institutions, building and loan associations, credit unions, and annual investigations in the case of small loan companies, it is not required to do so in the case of companies licensed to finance motor vehicles. This Division, however, is empowered to investigate, at any time, the business and affairs and to examine the books, accounts, etc. of any licensee for the purpose of discovering violations of the Motor Vehicle Sales Finance Act. For the purpose of this report, investigations shall be referred to as examinations.

The number of licenses issued and examinations made during the five years October 1, 1947 to September 30, 1952 were as follows:

	<u>1947-48</u>	<u>1948-49</u>	<u>1949-50</u>	<u>1950-51</u>	<u>1951-52</u>
Number of Licensees:					
Installment Sellers	5168	5283	5068	5102	5305
Sales Finance	640	601	613	617	645
Collector-Repossessor	17	14	17	16	15
Number of Examinations:					
Installment Sellers	3419	3186	3155	3328	3052
Sales Finance	170	224	181	251	246
Collector-Repossessor	10	8	0	0	15

The Motor Vehicle Sales Finance Division does not examine national banks or State banks especially licensed for this purpose. Examinations of State banks so licensed, of which there were 132 in the period ending September 30, 1952 and 130 in the period ending September 30, 1951, were made by bank examiners. It is apparent that, though national banks are required under the provisions of paragraphs two (2) and eight (8), section three (3) of the Motor Vehicle Sales Finance





Act, to be licensed by the Department of Banking, in order to engage in the business of financing the sale of motor vehicles, the Department of Banking as administrator of the Act, is not taking steps, in accordance with section eleven (11) of the Act, to investigate such national bank licensees, to ascertain whether they are operating in compliance with the provisions of the Act. In fact, we are advised in many instances national banks became licensees only after the Department refused permission to installment sellers of motor vehicles to arrange their financing with non-licensees.

Deducting the banking institutions and out of state sales finance companies from the number of sales finance licensees, the Division was required to examine only 237 sales finance companies in the period ending September 30, 1952. There were actually 246 examinations made. The 44 out-of-state companies are not presently being examined because of the expense such examinations entail and the problem of getting allowances for travel outside the State. It is the feeling of the Division, however, that such examinations should be made, at least on a triennial basis, despite the fact that such companies readily furnish information to the Division when requested.

The examination of installment sellers and sales finance companies is primarily for the purpose of determining whether licensees are complying with the Act, with respect to finance charges, the manner in which they are conducting business, the adequacy of records, etc. It is essentially a policing function as contrasted to a protective function performed by bank and building and loan association examiners. In the four years ending September 30, 1951, examinations have resulted in the refunding to borrowers of \$70,523 in unlawful charges made by installment sellers and sales finance licensees.

In the case of installment sellers, 3,052 examinations were made in the period ending September 30, 1952, compared with 5,305 licensees. The reason for this is because of the concentration of such licensees, thus reducing travel time, and the further fact that the examination (investigation) primarily requires only



a test-checking of contracts as to finance charges and, therefore, is not time consuming. Opinion was expressed that, since the majority of the contracts of installment sellers are financed through sales finance companies, a more thorough examination should be made of sales finance companies, involving proofs of sales contracts held and careful checking of the charges made. This should develop a greater number of violations of the provisions of the Act by installment sellers and, consequently, it would reduce considerably the number of examinations to be made of installment sellers.

#### Regulations

On the matter of regulations pertaining to the administration of the Motor Vehicle Sales Finance Act, it was stated that since the Act itself is so detailed, such regulations were not considered necessary. In the case of situations not specifically covered in the Act, and in the absence of regulations, an opinion is obtained from the Attorney General to cover them.

#### Need for Deputy or Assistant Chief

The Chief of the Division stated that it would be helpful in the more effective administration of the Division if a position of Deputy or Assistant Chief were created. The primary duties of such a Deputy or Assistant would be to work in the field among the examiners to check more closely on their performance and achieve greater uniformity in the quality of the whole examination process. Under present arrangements such a program is difficult since it would require the absence of the Chief of the Division to quite a considerable extent. There is a difference of opinion as to whether such an arrangement would achieve better results than the staff conference which we understand is now being held annually.

#### Files and Records

All of the files and records of the Division since its inception are contained in appropriate equipment in the space occupied on the fourth floor of the Education Building. It may be possible, as part of a sound and well-planned



records administration program, providing for careful evaluation, retention, preservation, microfilming and disposition, to dispose of some of the inactive files and records.

#### RECOMMENDATIONS

1. At the time legislation was being considered and drafted by the Joint State Government Commission to regulate the sale of motor vehicles, the plan was to place the motor vehicle sales-sales finance companies, installment sellers and collector repossessioners, as well as the consumer discount companies, small loan companies and pawnbrokers all under the administration of the Pennsylvania Consumer Credit Commission. This was not done, and under a proposed plan of reorganization of the Department of Banking (see page 85 ) it is recommended the Motor Vehicle Sales Finance Division, including the Consumer Credit Division, be placed under the direct supervision of a Deputy Secretary of Banking.
2. Consumer Credit Board - See recommendation under Consumer Credit Division, pages 64 and 65 of this report.
3. That the 223 national bank sales finance licensees be investigated in accordance with the provisions of the Motor Vehicle Sales Finance Act, or that the Act be amended to obviate such investigation by the Department.
4. That a more thorough examination of sales finance companies be made which would more effectively develop the number of violations of the Act by installment sellers. Thus by concentrating on sales finance companies, it would necessarily reduce the number of examinations to be made of installment sellers.
5. That the files and records of the Division be carefully evaluated, as part of a sound and well-planned records administration program, with the view of micro-filming and disposing of those which are inactive and no longer useful or necessary.
6. That no action be taken regarding the appointment of a Deputy or Assistant Chief of the Division, until a decision is reached as to the placing of this Division and the Consumer Credit Division under the direct supervision of a Deputy Secretary of Banking.





GENERAL

The other parts of this report contain information, statistical data and recommendations pertaining to the functional operations of the Bureaus and Divisions of the Department of Banking. In this section are included factors having to do with the general operation of the Department, as follows:

1. Organization

Under the present division of the duties and responsibilities of the three Deputy Secretaries of Banking, as shown in the organization and staff assignment chart as of September 15, 1952 page 84, each has charge of the review and necessary correspondence as to the reports of examinations of banks, banks and trust companies, trust companies, and savings banks, prepared by and received from the three examination districts into which the Commonwealth has been divided. (Headquarters offices at Philadelphia, Harrisburg and Pittsburgh.)

In addition, other general correspondence having to do with proposed changes in each district, such as capital increases, applications for branches, proposed mergers, consolidations, conversions, etc. are usually referred for consideration to the Deputy Secretary in charge of that district. Also, the over-all supervision of the Executive Bureau, and all personnel of the Department have been placed under the supervision of the Deputy Secretary, Senior Grade.

As previously stated, the Building and Loan Bureau is in charge of a Director, and the Consumer Credit and Motor Vehicle Sales Finance Divisions are each in charge of a Chief.

From our contacts with representatives of management of building and loan associations, consumer finance and small loan licensees, we have ascertained there is a definite feeling that these subdivisions of financial institutions under the supervision of the Department of Banking are not being





provided with the same quality of top representation as are the institutions being supervised by the Bank Examination Bureau.

### RECOMMENDATIONS

We believe the adoption of the following recommendations covering suggested changes in organization should improve the operations of the Department, and place it in a position with perhaps some later minor changes, to absorb the greater activity in banking which will result from the further increase in industrialization in eastern Pennsylvania:

(a) Based on opinions expressed that, as bank and building and loan supervision is of a protective character, while that of the licensees of the Consumer Credit and Motor Vehicle Sales Finance Divisions is of a policing nature, the logical procedure would be to designate a Deputy Secretary of Banking to be in direct charge of bank supervision, a Deputy Secretary to be in direct charge of building and loan supervision, in place of the present position of Director of the B. & L. Bureau, and a Deputy Secretary to be in direct charge of general consumer credit licensee supervision.

(b) That, as a logical plan of reorganization of the Department of Banking, the position of Senior Deputy Secretary of Banking be created, which would provide an officer:

- (1) With proper rank, to whom should be delegated authority to act in the absence of the Secretary of Banking.
- (2) For more effective functional coordination of the Department as a whole.
- (3) Who would perform certain duties and assume responsibilities as to policy and administrative matters which are at present diffused.



(c) That the position of Administrative Assistant be created, to be assigned to the Deputy Secretary in direct charge of bank supervision, in order to free him from routine activities, thus enabling this Deputy to devote a greater amount of his time to more important matters regarding bank examination and general supervision.

(d) That the three district offices of the Building & Loan Bureau at Philadelphia, Harrisburg and Pittsburgh be in charge of a Supervising B. & L. Examiner, to provide for more effective control of examinations, and their attendant problems. To accomplish this, it is suggested that one each of the Special B. & L. Examiner positions in Philadelphia and Harrisburg be changed to and classified as Supervising B. & L. Examiner, and that a new position as Supervising B. & L. Examiner be created in Pittsburgh.

These various organizational changes are incorporated in the proposed reorganization chart, page 85.

## 2. Merit System

Although the question of a proposed state-wide merit system and civil service is being covered by a separate horizontal survey, the purpose of covering the matter in a limited manner in this report, is to record the opinions of those who have had an interest in the application of civil service to the officers and employees of the Department of Banking, as follows:

In recent years certain Secretaries of Banking and other officers of the Department of Banking have advocated placing the employees of the Department under civil service.

During the course of this survey, the application of civil service to cover the officers and employees of the Department of Banking was discussed with the Secretary of Banking, the Deputies, the Director of the B. & L. Bureau, the Chiefs of the Consumer Credit and Motor Vehicle Sales Finance Divisions, as



well as one of the Chief Examiners. They all vigorously advocated the adoption of a sound and adequate merit system to cover all employees of the Department.

Banking and building and loan management, as well as representatives of the Pennsylvania Bankers Association, the Pennsylvania Savings & Loan League, the Pennsylvania Industrial Bankers Association and the Pennsylvania Consumer Finance Association, with whom we discussed this matter also vigorously advocated the adoption of a merit system. It was the concensus of opinion that placing the employees of the Department under civil service would tend to achieve the following:

(a) Eliminate the requirement for political sponsorship.

(b) Make service with the Department attractive as a career through a sound program of recruitment, classification and examination, with adequate compensation, promotional opportunities, retirement provisions, etc., in order to assure obtaining and retaining the best qualified person for every position in the Department.

(Note A: Because the Department of Banking is supported entirely by the chartered institutions, as well as the licensees subject to its supervision, the Pennsylvania Bankers Association recommended placing all of the employees, except the Secretary of Banking and a Special Deputy, if any, under civil service, and recently drafted proposed legislation to accomplish this.)

(Note B: It was recommended by some banks, as there may be difficulty in placing the entire Department immediately under civil service, a start be made with field examiners only. This may be for the reason that some representatives of bank management are not aware of certain other technical personnel employed in the Department. Therefore, it is recommended that at least all of the field examiners, as well as the other technical personnel, be covered by a merit system, except the Secretary of Banking, one Special Deputy, and one confidential secretary for each, if need be.)





(Note C: It was the opinion of the Banking Members of the Task Force that the entire personnel, with the exceptions noted above, and as recommended by the Pennsylvania Bankers Association, be placed under civil service.)

3. Comparative Data regarding Salaries, Procedure of Appointment and Promotion of Bank and Building & Loan Examiners, Including Allowances for Transportation, Lodging, Subsistence, Vacation & Sick Leaves.

In order that comparison of the above information may be made as to bank examiners, Tables 12 and 13, pages 114-117 provide this data for Pennsylvania, New York (where a merit system has been in effect for many years) and the three (3) Federal bank supervisory agencies.

Tables 14 and 15, pages 118-120 contain similar information pertaining to building and loan examiners, comparison being made with examiners of the Home Loan Bank Board, whose examiners make joint examinations of insured Pennsylvania building and loan associations with Pennsylvania building and loan examiners. The H.L.B.B. examiners also examine Federal savings and loan associations.

4. Comparative Personal Service Costs

While no attempt was made to provide comparisons for members of the staff of the Department of Banking, other than bank and building and loan examiners, it is pertinent to note there has been a consistent reduction in the total number of employees of the Department. In 1934 the Joint Legislative Committee on Finances reported that the highest number of personnel in the Department of Banking was 256 as of May 31, 1932 (salaries of 253 personnel as of March 1, 1933 totaled \$617,960.) In January 1941, the Joint State Government Commission of the General Assembly reported that, as of June 1, 1940, the number of personnel in the Department was 204, at an annual salary of \$498,250. Table 5 of this report discloses as of September 15, 1952 a reduction of personnel in the Department to 125, while total annual compensation is reported as \$623,808. Table 10 of this report shows the reduction in the number of personnel as noted



above, but that the average annual salary had increased from slightly in excess of \$2,400 in 1933 to \$4,950 in 1952. The increase in average compensation has resulted, for the most part, from two factors, namely, the need to retain or substitute competent personnel, and the requirement to bring compensation more in line with increased living costs.

One of the reasons making possible the reduction in the personnel of the Department, is that an amendment to Section 11-(k) of the Federal Reserve Act, effective October 23, 1935, served to eliminate the examination of trust departments of national banks by the bank supervisory authorities of the various states. We were advised that after the effective date of this amendment, 235 national banks in Pennsylvania voluntarily arranged with the Department of Banking for examination of their trust departments. By 1945 this number had been reduced to 95, and it was decided to discontinue examinations of trust departments of national banks as of the close of 1945. Accordingly, the Secretary of Banking, by letter dated November 14, 1945, advised the Judges of the Orphans' Courts of the various counties in the Commonwealth to that effect.

Improved conditions of banking institutions in Pennsylvania have also aided in making possible a reduction in the number of personnel in the Department of Banking.

To the extent we were able to analyze the operations of the Department, in our opinion, an important factor in effecting this reduction is that the Secretary of Banking and his subordinate officers are discharging their responsibilities with fidelity, and the staff as a whole are performing their duties in an efficient manner. The result has been to make it possible for the Department to discharge the increasing obligations placed upon it by changing laws, and the increased volume of banking business, while at the same time effecting an appreciable reduction in the number of its personnel.



(Note: A simple illustration of how the Department has endeavored to effect economies, was the elimination of a chauffeur position as of August 31, 1952, as the result of the sale of the Department's limousine, which the Secretary of Banking felt was not necessary.)

5. Departmental Handbooks or Manuals as Examiner Training

We inquired as to the extent to which handbooks or manuals of procedure had been prepared and are in use by the various bureaus and divisions in the training of their field examiners. We were advised there are none, but that in general, the information required for the compilation of the reports for the various types of examinations made, and the obtaining of information required to complete questions which are a part of such reports, provide more or less automatically the equivalent of procedure handbooks or manuals.

(a) Procedure Applicable to Bank Examiners:

With the exception of examiner conferences which have been held biennially, basically other training is represented by on-the-job experience. Generally inexperienced examiners are assigned the more routine tasks and as they become more competent, their assignments include more important phases of examination detail, until they attain experience in evaluating the various schedules and data prepared by other examiners regarding details of the same examination. The next step in training is the assembling of factors for consideration with management of the bank under examination and the writing of the final report. As these various steps require several years, depending on the individual and his early training in banking, the work involved in obtaining information to include in the various report schedules has also added to the experience of the examiner, preparing him for the time when he can be assigned to be in charge of the examination of smaller institutions. Further years of experience





with examination of institutions of varying sizes serve to qualify the examiner eventually to be in charge of examinations of the largest institutions under the supervision of the Department.

While the detail of examination of a trust department is of a different character, progression in the various steps of such examinations similarly provides the necessary examiner training and development, until he is sufficiently competent to be assigned in charge of such examinations.

(b) Procedure Applicable to Building and Loan Examiners:

As examinations of building and loan associations are mostly, except for the larger ones, conducted by one examiner, an inexperienced examiner usually accompanies an experienced examiner until he is able to function by himself, starting with the smaller associations and progressing in size of associations as he becomes more experienced.

(c) Procedure Applicable to Consumer Credit and Motor Vehicle Sales Finance Examiners:

With the exception of credit unions, the Department is empowered to investigate the licensees operating under the provisions of the various Acts, which investigation is of a policing nature. As stated elsewhere, for the purpose of this report, investigations have been referred to as examinations. New examiners are briefed as to the provisions of the various Acts, the types of contracts to be reviewed or assets to be examined, and the character of the violations for which their examinations are undertaken. In the case of the Motor Vehicle Sales Finance Division, a briefing examination elsewhere referred to, must also be passed before an examiner is permitted to make examinations of licensees.





## Conclusion

It is felt the procedures which are followed as outlined above adequately provide the basic and progressive training necessary for proper examiner development, and that the preparation and proper maintenance of currently useful examiner handbooks or manuals is, therefore, not vitally necessary. However, we believe a handbook or manual, in loose-leaf form, providing information as to the general background of the Department, its origin and history, organization chart, present bureaus and divisions and their functions, sources of income, etc., would be helpful to all new employees, especially the examining and technical staffs.

### 6. Location of Offices

Harrisburg - Rooms 425, 426, 427, 430, 431, 433, 434, 435, 436, 437, 438, 438-A, 439, 446, 449, 450, 453 and 479, Education Building. Total 10,257 square feet.

Pittsburgh - Rooms 908, 909, 910 and 911, ninth floor, Commonwealth Building, 312 Fourth Avenue. Total 1,653 square feet.

Philadelphia - Room 366, Broad Street Station Building, 1617 Pennsylvania Boulevard. Total 2,559 square feet.

### 7. Bonded employees of the Department of Banking

	<u>Amount</u>	<u>Expiration Date</u>
L. M. Campbell, Secretary	\$50,000	1-18-55
R. W. Doty, Deputy Secretary	25,000	10-12-52 *
Fred Wigfield, Jr., Deputy Secretary	25,000	1-8-53
Christian H. Brandt, Deputy Secretary	25,000	10-16-52 *
Wm. R. Saussaman, Comptroller	10,000	11-30-52
Ralph W. Reitzel, Supervisor of Reports	10,000	7-15-53
James A. Machlan, Mail Clerk	1,000	10-27-52 *
Howard E. Stoner, Revenue Agent	2,000	8-1-53

\*Renewed



## 8. Mechanical Office Equipment

The number of various kinds of office machines in the Department of Banking is as follows:

	<u>Classification</u>	<u>Number</u>	<u>Condition</u>
(a) <u>Harrisburg Office</u>			
	Typewriters	8	New
		24	Good
		12	Fair
		1	Poor
	Adding Machines	4	New
		7	Good
	Calculators	2	Good
	Comptometer	1	Good
	Postage Meter	1	New
	Mimeograph	1	Good
	Addressograph	1	Good
	Graphotype	1	Good
(b) <u>Philadelphia Office</u>			
	Typewriters	6	New
		6	Good*
	Adding Machines	2	Fairly New
		1	Good
	Comptometer	1	Good
	Calculator	1	Good
(c) <u>Pittsburgh Office</u>			
	Typewriters	5	Good
	Adding Machines	2	New
		1	Good
	TOTAL	<u>88</u>	

### SUMMARY

Typewriter	62
Adding Machine	17
Comptometer	2
Calculator	3
Postage Meter	1
Addressograph	1
Graphotype	1
Mimeograph	1
TOTAL	<u>88</u>

\* These six typewriters were not traded in when new machines were purchased as it was felt their condition was such as to warrant their future use at Philadelphia or Harrisburg and had more value for this purpose than their trade-in allowance value.



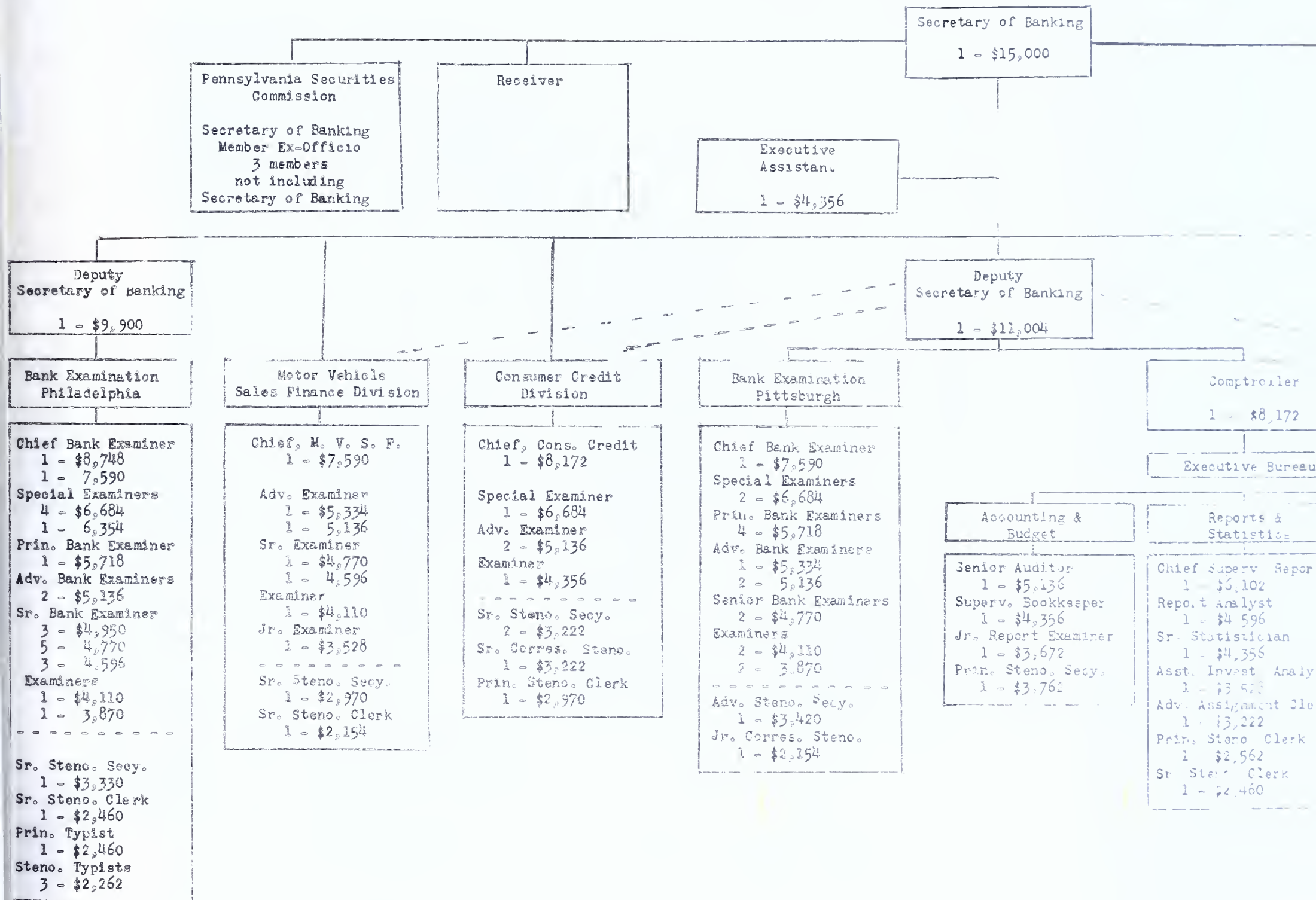






DEPARTMENT OF BANKING  
Commonwealth of Pennsylvania

ORGANIZATION AND STAFF ASSIGNMENT CHART AS OF SEPTEMBER 15, 1952

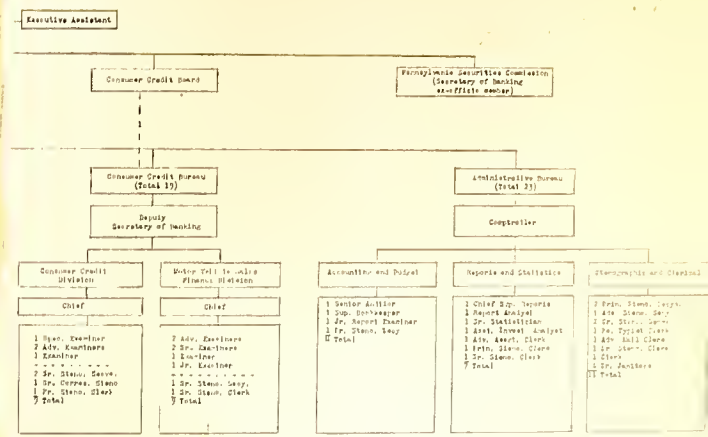
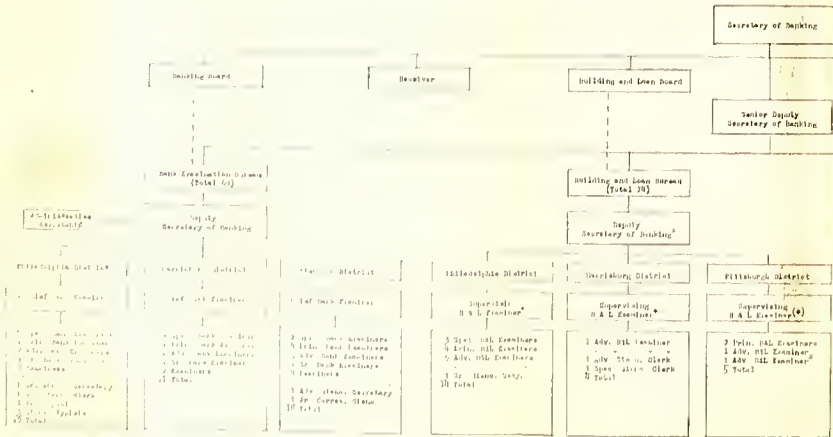








DEPARTMENT OF BANKING  
Commonwealth of Pennsylvania  
PROPOSED ORGANIZATION CHART







Part 8

PENNSYLVANIA SECURITIES COMMISSION

GENERAL STATEMENT

The Pennsylvania Securities Commission was created by an amendment to the Administrative Code approved April 13, 1927, and is vested with the administration and enforcement of the provisions of "The Pennsylvania Securities Act." The Commission is composed of three (3) Commissioners, one of whom is designated Chairman by the Governor, and the Secretary of Banking is an ex-officio member of the Commission. They are appointed for a term of four (4) years, with the advice and consent of the Senate. All of the employees, agents and investigators for the Commission are appointed by the Secretary of Banking, with the approval of the Governor.

A reenacted and amended Pennsylvania Securities Act was passed by the 1940-41 session of the Legislature and approved by the Governor on July 10, 1941. "The Pennsylvania Securities Act" provides for the registration of dealers and salesmen who are engaged in the business of offering securities to the public in Pennsylvania or undertaking to dispose of securities for the public and, with the amendment, now provides for the registration and regulation of persons and entities engaged in the business of investment advisers and of solicitors for investment advisers.

Section 15 of the Act provides:

"If the Commission at any time has reason to believe that any registered dealer or investment adviser has become of bad repute, that his plan of business has become unfair, unjust or inequitable, or is being conducted in an unfair, unjust or inequitable manner, that he has become of insufficient financial responsibility to deal with the public, that he has in any way violated, or is violating, or is about to violate, any of the provisions of this Act, or has been guilty of any fraud or fraudulent practice, then the Commission may, after hearing and having reasonable cause to so believe, refuse to renew or revoke said dealer's or investment adviser's registration."

From this action of the Commission, provisions are made for an appeal to Dauphin County Court.

The Commission is also vested with authority to institute criminal prosecution for violation of the provisions of "The Pennsylvania Securities Act" and may bring an action in the name and on behalf of the Commonwealth of Pennsylvania against any person to enjoin such person from doing any act or acts in violation of the provisions of "The Pennsylvania Securities Act".

(Note: Additional historical information is contained in Appendices A and B.)



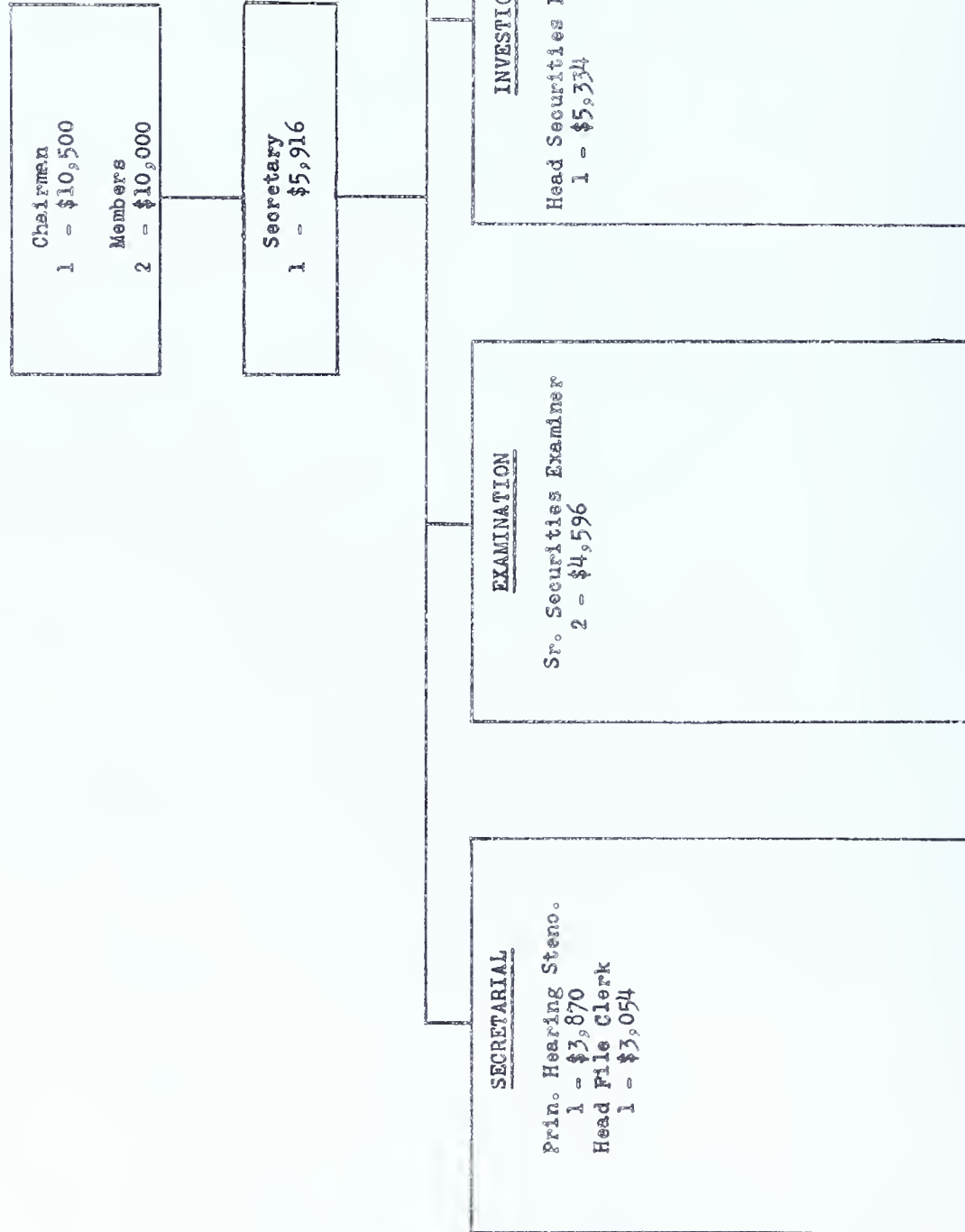




# PENNSYLVANIA SECURITIES COMMISSION

Commonwealth of Pennsylvania

## ORGANIZATION AND STAFF ASSIGNMENT CHART AS OF SEPTEMBER 15, 1952



## Personnel

As of September 15, 1952, the Commission was staffed with the following employees:

<u>Number</u>	<u>Payroll Title</u>	<u>Monthly Rate</u>	<u>Monthly Salary</u>	<u>Annual</u>
1	Chairman, Commission	\$875.00	\$ 875.00	\$10,500.00
2	Members, Commission	833.33	1,666.66	20,000.00
1	Secretary	493.00	493.00	5,916.00
<u>4</u>	TOTAL		<u>\$3,034.66</u>	<u>\$36,416.00</u>
<u>Investigation Division</u>				
<u>1</u>	Head Securities Investigator	444.50	\$ 444.50	\$ 5,334.00
<u>Examination Division</u>				
<u>2</u>	Sr. Securities Examiner	383.00	\$ 766.00	\$ 9,192.00
<u>Secretarial Division</u>				
1	Principal Hearing Steno.	322.50	322.50	3,870.00
1	Head File Clerk	254.50	254.50	3,054.00
<u>2</u>	TOTAL		<u>\$ 577.00</u>	<u>\$ 6,924.00</u>
<u>Registration Division</u>				
1	Sr. Steno. Clerk	205.00	205.00	2,460.00
1	Steno. Typist	205.00	205.00	2,460.00
1	Registration Clerk	205.00	205.00	2,460.00
1	Jr. Record Clerk	179.50	179.50	2,154.00
1	Senior Messenger	179.50	179.50	2,154.00
1	Senior Janitress	134.00	134.00	1,608.00
<u>6</u>	TOTAL		<u>\$1,108.00</u>	<u>\$13,296.00</u>
<u>15</u>	GRAND TOTAL		<u>\$5,930.16</u>	<u>\$71,162.00</u>



## Definition of Duties of the Technical Staff

The duties of the technical staff are as follows:

<u>Secretary of the Commission</u>	
<u>Time</u>	
50%	Handle all correspondence.
20%	Confer with individuals having business with the Commission
10%	Attend Commission meetings and present all matters requiring official action.
10%	Examine and recommend approval or disapproval of all salesmen's and solicitors' applications.
10%	Examine circulars, prospecti and literature and recommend acceptance or rejection.
	Supervise entire staff of Penna. Securities Commission.
	Periodical Duties:
	Review annual renewal applications of dealers, investment advisers, salesmen and solicitors, and recommend approval or disapproval of same.
<u>Head Securities Investigator</u>	
25%	Analyze all applications for registration as dealers in securities and investment advisers and accept such applications for filing.
25%	Assemble informations and write analysis together with recommendation for presentation to the Commission for approval or refusal.
25%	Handle all applications for amended registration resulting from changes in personnel, office addresses or plan of business of dealers in securities or investment advisers.
5%	Maintain list of dealers and investment advisers required to submit special periodical reports.
	Periodical Duties:
5%	Attend all hearings in connection with applications for registration of dealers in securities and investment advisers.
10%	Examine annual renewal applications of all registrants, both dealers in securities and investment advisers and submit recommendations.
5%	Attend hearings of the Commission at which the suspension or revocation of any registered dealer in securities, or registered investment adviser, may be under consideration as a result of violations of the Penna. Securities Act.
	Infrequent Duties:
	Examine the books of any registered dealer in securities or investment adviser as required.
	Investigate any complaints or evidence of violation of the Penna. Securities Act, securing statements and affidavits, preparing reports and recommendations, lodging information for warrants, testifying at hearings and trials.





Sr. Securities Examiner

Time

- 50% Investigate any complaints or evidence of violation of the Pennsylvania Securities Act.
- 10% Secure statements and affidavits.
- 10% Prepare reports and recommendations.
- 5% Lodge information for warrants.
- 10% Testify at hearings and trials.
- Periodical Duties:
- 10% Attend hearings of the Commission at which suspension or revocation of any registered dealer or investment adviser, salesman or solicitor may be under consideration resulting from violation of the Pennsylvania Securities Act.
- 5% Aid hearing examiner in securing information required.

Technical Staff Educational and Experience Data

A review of the records of the technical staff was made. Their educational background is uniformly satisfactory. As the major part of the duties of the technical staff is of a policing nature, their experience records are such as to qualify them to carry out their duties in a satisfactory manner.

The following is a summary as to age and service records:

	<u>Average Years of Service</u>	<u>Age</u>	<u>Average Age</u>
1 Secretary	22	67	67
1 Head Sec. Investigator	11	54	54
2 Sr. Sec. Examiners	4-1/4	46-48	47
<u>4</u>	<u>10</u>	<u>46-67</u>	<u>54</u>

At present no examination is given applicants for technical positions similar to that required of the candidates for the position of bank examiner. Political sponsorship is required.

Operation of the Commission

The headquarters of the Commission is in Harrisburg and is located at 215 North Second Street. The senior securities examiners are headquartered in Philadelphia and Pittsburgh.

The Commission supervises the registration of all dealers and salesmen engaged in the investment business and of all investment advisers and the solicitors of investment advisers.



The number of each class of registrant for the past five years was as follows:

<u>Date</u>	<u>Dealers</u>	<u>Investment Advisers</u>	<u>Salesmen</u>	<u>Solicitors</u>
May 31, 1948	445	67	2,445	55
May 31, 1949	449	67	2,407	53
May 31, 1950	457	72	2,488	55
May 31, 1951	481	67	2,568	52
May 31, 1952	516	66	2,716	49

Registrants are required to pay the following fees:

- (a) For the filing of any original or renewal application \$10.00
- (b) For each registration certificate of a dealer of investment adviser 60.00
- (c) For each registration certificate of a salesman or solicitor 15.00
- (d) For each registration certificate of a dealer or investment adviser issued after June 30th of any year 30.00
- (e) For each amended registration certificate 20.00
- (f) For filing of a notice of a proposed change in a dealer's or investment adviser's plan of business 20.00
- (g) For each duplicate of a registration certificate of a dealer or investment adviser 20.00

The Commissioners pass upon all applications for registration of dealers, salesmen, investment advisers and solicitors, and all applicants are checked by the examiners as to their qualifications before the applications are submitted to the Commission for consideration. Also, the offering of all corporate securities through registered dealers is passed on by the Commission before they are sold in the Commonwealth. This is done by requiring the filing of the prospectus in which full disclosure of all facts upon which a prospective purchaser can base his judgment before investment is made or by licensing as a dealer the issuing company to sell its own securities.



Hearings are held on applications, revocations, and refusals to register.

For the past five years the number of hearings held by the Commission was as follows:

<u>Year</u>	<u>No. of Hearings</u>
1948	10
1949	15
1950	19
1951	12
1952 (1st half)	14

The Commission, for the past 25 years, has issued an annual report briefly summarizing its activities. It contains statistics relating to the number of registrations granted during the year, prosecutions, cease and desist orders issued, the names and addresses of all registered dealers and investment advisers and a financial statement.

The annual reports show that the number of individuals and companies notified to cease and desist from offering securities in the Commonwealth, until registered, during the past five years was as follows:

<u>Year ending June 30</u>	<u>No. of Cease and Desist Orders</u>
1948	27
1949	50
1950	52
1951	34
1952	22

The Commission cooperates closely with other organizations, such as the National Association of Securities Dealers, the Pennsylvania Bankers' Association, the State Chamber of Commerce and the Better Business Bureau by the exchange of information relating to violations of the law.

#### Receipts and Expenses

The income of the Commission is derived principally from filing and registration fees. Funds are credited to the General Fund from which it receives an appropriation to meet its operating expenses. As shown in Table 1 revenues have exceeded expenses in each of the five years 1948 to 1952



During this period expenses have increased from \$50,327 in 1947-48 to \$84,670 in 1951-52. This has been due principally to increased salaries and to the removal of the Commission's offices from the Education Building to leased quarters on North Second Street, for which the Commission is now paying a rental of \$12,000 a year.

#### Files and Records

Extensive files are maintained by the Commission which require approximately 1,070 square feet of floor space or approximately 18 percent of the total 5,800 square feet occupied by the Commission's offices. An inventory of the files and the purposes for which they are used is as follows:

##### Number of four-drawer cabinets

- 26 -- Inactive salesmen. File folders for each salesman who has at one time been registered with the Commission, but whose registration is no longer in effect.
- 53 -- Correspondence. All mail and answers retained in these cabinets. Letters from persons who subsequently obtain registration are transferred to their respective files in the active cabinets.
- 30 -- Active dealers. File folders for each active dealer registered with the Commission and carrying on securities operations.
- 61 -- Inactive dealers. File folders for each dealer who has at one time been registered but whose registration is no longer in effect. Cabinets are located in the hearing room.
- 14 -- Prospecti of bond and stock issues in Pennsylvania, which are retained for three years and then destroyed.
- 6 -- Active salesmen. File folders for each active salesman registered with the Commission and carrying on operations in securities.
- 6 -- Forms, copies of acts pertaining to the Commission, legal opinions, bulletins, regulations.
- 4 -- Investment advisers. File folders on registered investment advisers, solicitors' statements, blank registration certificates.
- 4 -- Legal data on investment companies.
- 5 -- Commission supplies.





- 2 -- New York Stock Exchange, circular letters from other States.
- 2 -- Miscellaneous material.
- 2 -- Past annual reports of the Commission, rulings, renewal forms.
- 9 -- Supplies and current work.
- 1 -- Used for renewal applications one month of the year.
- 2 -- Empty cabinets.

227 TOTAL

#### Trans-files

- 8 drawers -- inactive dealers' files.
- 3 drawers -- past annual reports.
- 8 drawers -- SEC violations and long cases before the Pa. S. C.
- 3 drawers -- empty.

#### Card File Cabinets

- 66 drawers -- 6 x 9 file cards, cross indices on dealers, salesmen and circulars.
- 4 tubfiles -- names of attorneys and officers of dealer firms.
- 15 Kardex sections -- indices of all active and inactive dealers, salesmen, investment advisers.
- 2 cabinets -- same size as four-drawer metal type, but divided into card size drawers -- cross-reference of dealers, et al, who appear in Commission hearing minutes.

#### Ledger cabinets

- 1 -- Bound minutes of Commission hearings.
- 1 -- Financial records of the Commission.

While much of the material which is contained in these files provides valuable and necessary information in connection with the Commission's policing and regulatory functions, it may, nonetheless, be possible as a result of a sound and well planned records administration program, providing for careful evaluation, retention, preservation, microfilming and disposition to dispose of those which are inactive and no longer useful or necessary.



## CONCLUSIONS

Satisfaction was expressed by responsible persons in the securities industry with the manner in which the Commission is conducting its affairs. It was felt that a valuable service was being performed to the registrants and the public.

Attention is called to the fact that since the passage of the Securities and Exchange Act of 1934 and the so-called Maloney Act of 1938, much of the supervision of the securities industry is performed by self-regulation. This greatly simplifies the work of the Pennsylvania Securities Commission. It cooperates with the self-regulatory units which, under their respective constitutions are required to enforce the provisions of the National Securities Exchange Act of 1934 and the rules and regulations of the National Securities and Exchange Commission thereunder. In Pennsylvania these self-regulatory units are the Philadelphia-Baltimore Stock Exchange, the Pittsburgh Stock Exchange and the National Association of Securities Dealers.

Since time did not permit making a detailed functional analysis of the fifteen positions of the Commission, we are not able to state to what extent it may be overstaffed or understaffed. In this connection, however, cognizance should be taken of the fact that in the five year period, June 1, 1947 to May 31, 1952, expenses were substantially less than the amount of revenue collected by the Commission



TABLE 1

## DEPARTMENT OF BANKING

Commonwealth of Pennsylvania

## ANNUAL GROSS COSTS AND REVENUES - CASH BASIS

JUNE 1, 1947 TO MAY 31, 1952

	6/1/47 to 5/31/48	6/1/48 to 5/31/49	6/1/49 to 5/31/50	6/1/50 to 5/31/51	6/1/51 to 5/31/52
	Gross Cost	Gross Cost	Gross Cost	Gross Cost	Gross Cost
	Revenue	Revenue	Revenue	Revenue	Revenue
Overhead expenses applicable to supervision of banks and trust companies	\$147,508.84	\$175,749.45	\$168,077.06	\$181,713.25	\$179,990.35
Examinations of banks and trust companies	251,842.42	275,985.24	286,697.66	272,377.22	297,380.11
Examinations of building and loan associations	105,375.91	102,834.56	101,353.80	94,805.24	91,721.37
Overhead expenses applicable to supervision of building and loan associations	42,185.38	38,916.77	33,282.29	37,905.86	45,510.12
Examinations of credit unions					
small loan companies, consumer discount companies and pawnbrokers	18,423.06	20,363.87	23,542.64	25,901.46	25,572.04
Supervision and operating expense of motor vehicle sales finance companies, installment sellers, and collector repossessioners	37,966.21	59,158.91	57,918.44	56,444.77	55,325.03
Supervision and operating expense of credit unions, small loan and consumer discount companies, and pawnbrokers	21,222.28	23,888.80	26,521.24	27,922.18	31,286.38
Liquidation and Misc.					
	11,637.87	30,412.27		14,871.24	7,122.04
Sub-Total	624,524.10	696,897.60	697,393.13	697,069.98	726,785.40
Registration and supervision of security dealers and salesmen, invest advisers and solicitors	50,327.06	60,958.00	67,376.59	64,814.03	84,670.54
Grand Total	\$674,851.16	\$757,855.60	\$764,769.72	\$761,884.01	\$811,455.94





TABLE 2  
DEPARTMENT OF BANKING

Commonwealth of Pennsylvania

BASIS FOR ALLOCATING OVERHEAD AND SUPERVISION COSTS

ALLOCATION OF SALARIES

Executive Office

Secretary of Banking	Banks & Trust Companies	-	5 months
	B & L Division	-	1 month
	Consumer Credit Division	-	3 months
	M. V. S. F. Division	-	3 months
Deputy Secretary of Banking	100% to Banks & Trust Companies		
Comptroller	100% to Banks & Trust Companies		
Administrative Assistant	100% to Banks & Trust Companies		

Accounting Division - Exec. Bureau

Sr. Accountant	Consumer Credit Division
Supervising Bookkeeper	Banks & Trust Companies
Jr. Report Examiner	M. V. S. F. Division
Prin. Steno.-Secy.	B & L - 6 months
	Sec. Comm. - 6 months

Reports and Statistics - Exec. Bur. 100% to Banks & Trust Companies

Secretarial, Steno. & Typists - Exec. Bureau 100% to Banks & Trust Companies

Clerical - Exec. Bureau

Prin. Typist Clerk	Banks & Trust Companies
Adv. Mail Clerk	Banks & Trust Companies - 6 months
	Consumer Credit - 3 months
	M. V. S. F. Div. - 3 months
Sr. Steno. Clerk	Banks & Trust Companies
Clerk	Banks & Trust Companies
Janitress (1)	Banks & Trust Companies
Janitress (1)	Consumer Credit - 6 months
	M. V. S. F. - 6 months

Bank Examination

Examiners' salaries charged directly to Banks & Trust Companies on basis of 220 day year as part of examination costs.

Chief Examiners' salaries charged 100% to overhead costs for Banks & Trust Companies.

Salary of one Advanced Bank Examiner assigned to office in Harrisburg, charged to overhead as follows:

Banks & Trust Companies	-	6 months
Liquidation Expense	-	6 months



Building and Loan Division

Director	Charged to B & L overhead
Prin. B. & L. Examiner (1)	Charged to B & L overhead
Examiners (all)	Charged to examination costs
Special B. & L. Examiner (1)	Charged to B & L overhead
Stenog.-Secy.	Charged to B & L overhead

Consumer Credit Division

Chief of Division	Charged to supervision costs
Examiners	Charged to examination costs
Steno.-Secy.	Charged to supervision costs

Motor Vehicle Sales Finance Division

Chief of Division	Charged to supervision costs
Examiners	Charged to examination costs - not reimbursed
Steno.-Secy.	Charged to supervision

ALLOCATION OF EXPENSES OTHER THAN SALARIESState Employees' Retirement

Allocated to various divisions on basis of personnel assignments.

Total Cost	\$50,012
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(excluding Security Commission)

All expenses are charged directly to division for which they are incurred where possible. Those incurred for general purposes are allocated on an estimated use basis.

Traveling Expense

Examiners	Charged to examination costs
Secretary of Banking	100% to Banks & Trust Companies

Postage

Cost 1951-52 -- \$3,100

allocated as follows:

Banks & Trust Companies	\$1,200
B & L	300
Consumer Credit	600
M. V. S. F.	<u>1,000</u>



### Telephone & Telegraph

Philadelphia Office	- All charged to B & L	\$1,100
Pittsburgh Office	- All charged to Banks & Trust Companies	700
Harrisburg	- \$50 per month charged to Consumer Credit	600
	\$50 " " " " M. V. S. F.	600
	Balance to Banks & Trust Companies	<u>1,600</u>
Total 1951-52		<u>\$4,600</u>

Rent -- Total 1951-52 \$13,812 present annual rate

Charged to Banks & Trust Companies	\$8,890
" " B & L	<u>4,922</u>

Covers rent for offices in Philadelphia and Pittsburgh allocated as follows:

Philadelphia Office	- 50% to Banks & Trust Companies	\$3,600
	50% to B & L	3,600
Pittsburgh Office	- 80% to Banks & Trust Companies	5,290
	20% to B & L	<u>1,322</u>

### Insurance Bonds

Secretary of Banking	100% to Banks & Trust Companies
All Others	Charged to division to which employee is assigned.

### Other Maintenance Costs & Service Charges

Cost 1951-52 -- \$2,300

allocated as follows:

Banks & Trust Companies	\$1,500
B & L	400
Consumer Credit	200
M. V.S. F.	200



TABLE 3

## DEPARTMENT OF BANKING

Commonwealth of Pennsylvania

## ALLOCATION OF SALARIES - DIRECT AND OVERHEAD\*

	Annual Salary	Banking Institutions Exam. Costs Overhead	Building & Loan Assoc. Exam. Costs Overhead	Consumer Credit R.v. Exam. Costs Overhead	M.V.S.P. Division	Penna. Securities Comm.	Liquidation Division
Secretary of Banking	\$15,000	\$6,250	\$1,250	\$3,750	\$3,750		
Deputy Secretary of Banking	31,386	31,386					
Executive Assistant	4,356	4,356					
Executive Bureau	50,742	41,992	1,250	3,750	3,750		
Comptroller	8,172	8,172					
Accounting - Budget	16,926	4,356	1,881	5,136	3,672	\$1,881	
Reports and Statistics	26,826	26,826					
Steno. & Clerical	30,156	27,270		1,443	1,443		
	82,080	66,624	1,881	6,579	5,115	1,881	
Banks and Trust Bureau							
Bank Examination	266,508	19,098					\$2,760
Bank Stenographic	20,610	20,610					
Consumer Credit Div.	42,120			20,808	40,188		
Motor Vehicles Sales Fin. Div.	40,188				40,188		
	369,426	39,708		20,808			
Building & Loan Bureau							
Director	8,172						
Spec. B. & L. Examiner	6,684		8,172				
Examiners	96,840		6,684				
Office Personnel	9,864		5,718				
	121,560		2,864				
			30,438				
SUB-TOTAL	623,808	244,650	33,569	31,137	49,053	1,881	2,760
Penna. Securities Commission	71,162					71,162	
TOTAL	694,970	244,650	33,569	31,137	49,053	73,043	2,760
% of Total	100%	35.2%	4.8%	4.5%	7.1%	10.5%	.4%

\*Based on salaries in effect 9/15/52





TABLE 4

## DEPARTMENT OF BANKING

## COMPARATIVE PROFIT AND LOSS STATEMENT

	6/1/47 to 5/31/48	6/1/48 to 5/31/49	6/1/49 to 5/31/50	6/1/50 to 5/31/51	6/1/51 to 5/31/52
<b>BANK &amp; TRUST COMPANIES</b>					
Charges for Examinations	\$237,319	\$255,336	\$271,361	\$274,173	\$290,805
Charges for Overhead	167,486	178,045	181,156	182,057	200,334
Miscellaneous Revenue	7	5	5	1,267	335
<b>Total Revenue</b>	<b>\$404,812</b>	<b>\$433,386</b>	<b>\$452,522</b>	<b>\$464,497</b>	<b>\$491,474</b>
Less:					
Salaries of Bank Examiners	177,742	188,354	202,694	200,911	224,130
Expenses of Bank Examiners	56,135	61,423	70,195	70,869	73,536
Salaries - Other than Examiners	118,134	128,247	131,280	134,803	143,469
Expenses - Other	35,068	42,288	37,098	31,418	33,402
Retirement Payments	12,553	12,553	12,327	12,327	15,894
<b>Total Expenses</b>	<b>\$399,632</b>	<b>\$433,165</b>	<b>\$453,594</b>	<b>\$450,328</b>	<b>\$490,431</b>
<b>Profit or Loss</b>	<b>\$ 5,180</b>	<b>\$ 221</b>	<b>\$ -1,072</b>	<b>\$ 14,169</b>	<b>\$ 1,043</b>
<b>BUILDING &amp; LOAN ASSOCIATIONS</b>					
Charges for Examinations	\$103,989	\$103,971	\$100,512	\$ 96,289	\$ 90,166
Charges for Overhead	42,783	43,062	43,166	44,074	52,746
Miscellaneous Revenue	2	0	0	0	0
<b>Total Revenue</b>	<b>\$146,774</b>	<b>\$147,033</b>	<b>\$143,678</b>	<b>\$140,363</b>	<b>\$242,912</b>
Less:					
Salaries of B & L Examiners	88,923	85,248	85,357	80,272	78,907
Expenses of B & L Examiners	13,868	14,923	14,010	14,346	12,891
Salaries - Other than Examiners	29,129	29,307	23,579	26,346	35,182
Expenses - Other	10,980	9,715	9,540	11,628	10,547
Retirement Payments	5,379	5,380	5,283	5,283	5,178
<b>Total Expenses</b>	<b>\$148,279</b>	<b>\$144,573</b>	<b>\$137,769</b>	<b>\$137,875</b>	<b>\$142,705</b>
<b>Profit or Loss</b>	<b>\$ -1,505</b>	<b>\$ 2,460</b>	<b>\$ 5,909</b>	<b>\$ 2,488</b>	<b>\$ 207</b>
<b>Consumer Credit Division</b>					
Charges for Examinations	14,201	17,342	18,349	21,160	20,173
Charges for Overhead (Cr. Unions only)	1,455	1,615	1,635	1,732	3,398
License fees	104,100	111,300	114,100	118,800	122,300
<b>Total Revenue</b>	<b>\$119,756</b>	<b>\$130,257</b>	<b>\$134,084</b>	<b>\$141,692</b>	<b>\$145,871</b>
Less:					
Salaries & Expenses - S. L. Examiners	18,423	20,322	23,584	25,834	25,687
Salaries & Expenses - Other	22,056	23,044	26,860	27,684	31,476
Retirement Payments	1,223	1,223	1,201	1,201	2,353
<b>Total Expenses</b>	<b>\$41,702</b>	<b>\$44,589</b>	<b>\$51,645</b>	<b>\$54,719</b>	<b>\$59,516</b>
<b>Profit or Loss</b>	<b>\$ 78,054</b>	<b>\$ 85,668</b>	<b>\$ 82,439</b>	<b>\$ 86,973</b>	<b>\$ 86,355</b>



TABLE 4

## DEPARTMENT OF BANKING

## COMPARATIVE PROFIT AND LOSS STATEMENT (Cont'd)

MOTOR VEHICLE SALES FINANCE DIVISION		6/1/47 to 5/31/48	6/1/48 to 5/31/49	6/1/49 to 5/31/50	6/1/50 to 5/31/51	6/1/51 to 5/31/52
License Fees		\$ 74,060	\$115,224	\$115,056	\$114,074	\$117,210
Less:						
Salaries & Expenses - Examiners		12,292	25,592	25,874	28,522	29,927
Salaries & Expenses - Other		25,924	33,529	32,211	27,073	26,258
Retirement Payments		1,223	1,223	1,201	1,201	1,581
Total Expenses		\$ 39,439	\$ 60,344	\$ 59,286	\$ 56,796	\$ 57,766
Profit or Loss		\$ 34,621	\$ 54,880	\$ 55,770	\$ 57,278	\$ 59,444
MISCELLANEOUS REVENUE						
Interest on Time Account		\$ 2,556	\$ 3,757	\$ 3,402	\$ 3,642	\$ 4,890
Interest on Investments		1,521	2,630	3,198	3,025	841
Sale of Publications		15	12	32	48	16
Other		0	0	588	125	123
Total Misc. Revenue		\$ 4,092	\$ 6,399	\$ 7,220	\$ 6,840	\$ 5,870
SUMMARY:						
Charges for Examinations		\$355,509	\$376,649	\$390,222	\$391,622	\$401,144
Charges for Overhead		211,724	222,722	225,957	234,863	256,478
License Fees		178,160	226,524	229,156	232,874	239,510
Miscellaneous Revenue		4,101	6,404	7,225	8,107	6,205
Total Revenue		\$749,494	\$832,299	\$852,560	\$867,466	\$903,337
Less:						
Salaries & Expenses - Examiners		367,383	395,862	421,714	420,754	445,078
Salaries & Expenses - Other		241,291	266,430	260,568	258,952	280,334
Retirement Payments		20,378	20,379	20,012	20,012	25,006
Total Expenses		\$629,052	\$682,671	\$702,294	\$699,718	\$750,418
Profit or Loss		\$120,442	\$149,628	\$150,266	\$167,748	\$152,919

- Indicates loss.



TABLE 5  
DEPARTMENT OF BANKING  
and  
PENNSYLVANIA SECURITIES COMMISSION

Commonwealth of Pennsylvania

SUMMARY OF PERSONNEL  
(as of September 15, 1952)

	<u>No.</u>		<u>Amount</u>
Secretary of Banking	1		\$15,000
Deputy Secretary of Banking	3		31,386
Administrative Assistant	1		4,356
 <u>Executive Bureau:</u>	 23		 82,080
Comptroller	1	\$8,172	
Accounting - Budget	4	16,926	
Reports & Statistics	7	26,826	
Stenographic and Clerical	11	12,858	
 <u>Bank and Examination Bureau:</u>	 57		 287,118
Bank Examination	49	266,508	
Bank Stenographic	8	20,610	
 <u>Consumer Credit:</u>	 9		 42,120
 <u>Motor Vehicles:</u>	 9		 40,188
 <u>Building &amp; Loan Bureau:</u>	 22		 121,560
Director	1	8,172	
Spec. B. & L. Examiner	1	6,684	
Examination Personnel	17	96,840	
Office Personnel	3	9,864	
	<hr/>		<hr/>
	125		\$623,808
 Penna. Securities Commission	 <u>15</u>		 <u>71,162</u>
 TOTAL	 140		 \$694,970





TABLE 6  
DEPARTMENT OF BANKING  
Commonwealth of Pennsylvania

PERSONNEL AS OF SEPTEMBER 15 1952

EXECUTIVE OFFICE

Secretary of Banking (1)	1		\$15,000	
Deputies (3)	1	\$11,004		
	1	10,482		
	1	<u>9,900</u>	31,386	
Executive Assistant (1)			<u>4,356</u>	
				\$50,742

EXECUTIVE BUREAU

Comptroller (1)			8,172	
<u>Accounting - Budget (4)</u>				
Sr. Auditor	1	5,136		
Superv. Bookkeeper	1	4,356		
Jr. Report Examiner	1	3,672		
Prin. Stenographer Secy.	1	<u>3,762</u>	16,926	
<u>Reports &amp; Statistics (7)</u>				
Chief Supervisor of Reports	1	6,102		
Report Analyst	1	4,596		
Sr. Statistician	1	4,356		
Asst. Invest. Analyst	1	3,528		
Adv. Assignment Clerk	1	3,222		
Prin. Stenographer Clerk	1	2,562		
Sr. Stenographer Clerk	1	<u>2,460</u>	26,826	
<u>Stenographic and Clerical (11)</u>				
Prin. Steno. Secys.	2	\$3,762	7,524	
Adv. Steno. Secy.	1		3,330	
Sr. Steno. Secys.	2	3,222	6,444	
Prin. Typist Clerk	1		2,562	
Adv. Mail Clerk	1		2,364	
Sr. Steno. Clerk	1		2,262	
Clerk	1		2,262	
Janitresses	2	1,704	<u>3,408</u>	<u>30,156</u>

TOTAL Executive Bureau

\$82,080



BANK EXAMINATION BUREAU

Philadelphia Office (29)

Bank Examination (23)

Chief Bank Examiners	1		\$8,748	
	1		7,590	
Special Examiners	4	\$6,684	26,736	
	1		6,354	
Prin. Bank Examiner	1		5,718	
Adv. Bank Examiners	2	5,136	10,272	
Sr. Bank Examiners	3	4,950	14,850	
	5	4,770	23,850	
	3	4,596	13,788	
Examiners	1		4,110	
	1		<u>3,870</u>	\$125,886

Stenographic (6)

Sr. Steno. Secy.	1		3,330	
Sr. Steno. Clerk	1		2,460	
Prin. Typist	1		2,460	
Sr. Typists	3	2,262	<u>6,786</u>	<u>15,036</u>

TOTAL Phila. Office

\$140,922

Harrisburg Office (10 + 1 vacancy)

Bank Examination (10 + 1 vacancy)

Chief Bank Examiner	(vacant)			
Special Examiners	4	6,684	26,736	
Prin. Bank Examiner	1		5,718	
Adv. Bank Examiner	1 (assgd. to		5,520	
	(office			
	1		5,136	
Sr. Bank Examiner	1		4,596	
Examiner	1		4,110	
	1		<u>3,870</u>	

TOTAL Harrisburg Office

55,686



BANK EXAMINATION BUREAU (Continued)

Pittsburgh Office (18)

Bank Examination (16)

Chief Bank Examiner	1		\$7,590	
Special Examiners	2	\$6,684	13,368	
Prin. Bank Examiners	4	5,718	22,872	
Adv. Bank Examiners	2	5,136	10,272	
	1		5,334	
Sr. Bank Examiners	2	4,770	9,540	
Examiners	2	4,110	8,220	
	2	3,870	<u>7,740</u>	\$84,936

Stenographic (2)

Adv. Steno. Secy.	1		3,420	
Jr. Corres. Steno.	1		<u>2,154</u>	<u>5,574</u>

TOTAL Pittsburgh Office

\$90,510

TOTAL Bank Examination Bureau (57)

\$287,118

CONSUMER CREDIT (9)

Chief, Consumer Credit	1		8,172	
Spec. Bank Examiner	1		6,684	
Adv. Bank Examiner	2	5,136	10,272	
Bank Examiner	1		4,356	
Sr. Stenographer Secys.	2	3,222	6,444	
Sr. Corres. Secy.	1		3,222	
Prin. Stenographer Secy.	1		<u>2,970</u>	

TOTAL Consumer Credit

\$42,120

MOTOR VEHICLES (9)

Chief, Motor Vehicles	1		7,590	
Adv. Bank Examiners	1		5,334	
	1		5,136	
Sr. Bank Examiners	1		4,770	
	1		4,596	
Bank Examiner	1		4,110	
Jr. Bank Examiner	1		3,528	
Sr. Stenographer Secy.	1		2,970	
Sr. Stenographer Clerk	1		<u>2,154</u>	

TOTAL Motor Vehicles

\$40,188



BUILDING & LOAN BUREAU (22)

Director (1)	1		\$8,172	
Spec. B. & L. Examiner (1)	1		<u>6,684</u>	\$14,856
<u>Examination Personnel (17)</u>				
Spec. B. & L. Examiners	4	\$6,354	25,416	
Prin. B. & L. Examiners	5	5,718	28,590	
	1		6,102	
Adv. B. & L. Examiners	1		5,520	
	2	5,334	10,668	
	4	5,136	<u>20,544</u>	96,840
<u>Office Personnel (3)</u>				
Adv. Stenographer Secy.	1		3,420	
Spec. Stenographer Clerk	1		3,222	
Sr. Stenographer Secy.	1		<u>3,222</u>	<u>9,864</u>
TOTAL Bldg. & Loan Bureau				\$121,560
<hr/>				<hr/>
GRAND TOTAL	125			<u>\$623,808</u>
				<hr/>





TABLE 7  
PENNSYLVANIA SECURITIES COMMISSION

Commonwealth of Pennsylvania

PERSONNEL AS OF SEPTEMBER 15, 1952

Chairman	1 @	\$10,500	
Members	2 @ \$10,000	20,000	
Secretary	1 @	<u>5,916</u>	\$36,416
 <u>Secretarial</u>			
Prin. Hearing Sten.	1 @	3,870	
Head File Clerk	1 @	<u>3,054</u>	6,924
 <u>Examination</u>			
Sr. Securities Examiner	2 @ \$4,596	9,192	9,192
 <u>Investigation</u>			
Head Securities Examiner	1 @	5,334	5,334
 <u>Registration</u>			
Sr. Steno. Clerk	1 @	2,460	
Sr. Typist	1 @	2,460	
Registration Clerk	1 @	2,460	
Jr. Record Clerk	1 @	2,154	
Sr. Messenger	1 @	2,154	
Sr. Janitress	<u>1 @</u>	<u>1,608</u>	<u>13,296</u>
 TOTAL	 15		 \$71,162



TABLE 8  
DEPARTMENT OF BANKING

Commonwealth of Pennsylvania

PERSONNEL AS OF SEPTEMBER 15, 1952  
(By Job Classification)

Secretary of Banking	1	@	\$15,000
Deputies	3 --	1 @	11,004
		1 @	10,482
		1 @	9,900
Comptroller	1	@	8,172
Administrative Assistant	1	@	4,356
Sr. Auditor	1	@	5,136
Supervising Bookkeeper	1	@	4,356
Jr. Report Examiner	1	@	3,672
Chief, Supervisor of Reports	1	@	6,102
Report Analyst	1	@	4,596
Sr. Statistician	1	@	4,356
Asst. Investment Analyst	1	@	3,528
Adv. Assignment Clerk	1	@	3,222
Chief Bank Examiner	1	@	8,748
	2	@	7,590
	1		(Vacancy)
Special Bank Examiner	10	@	6,684
	1	@	6,354
	1	@	6,684 (C.C.)
Principal Bank Examiner	6	@	5,718
Adv. Bank Examiner	1	@	5,520
	1	@	5,334
	5	@	5,136
Adv. Bank Examiners	2	@	5,136 (C.C.)
	1	@	5,136 (M.V.)
	1	@	5,334 (M.V.)
Sr. Bank Examiners	3	@	4,950
	7	@	4,770
	4	@	4,596
	1	@	4,770 (M.V.)
	1	@	4,596 (M.V.)
Bank Examiners	4	@	4,110
	4	@	3,870
	1	@	4,356 (C.C.)
	1	@	4,110 (M.V.)
Jr. Bank Examiner	1	@	3,528 (M.V.)
Chief Consumer Credit	1	@	8,172
Chief Motor Vehicles	1	@	7,590
Director, B. & L. Bureau	1	@	8,172
Spec. B. & L. Examiner	1	@	6,684
	4	@	6,354
Prin. B. & L. Examiner	1	@	6,102
	5	@	5,718



Adv. B. & L. Examiner	1	@	\$5,520
	2	@	5,334
	4	@	5,136
Sr. Stenographer-Secretary	1	@	3,330
	5	@	3,222
	1	@	2,970
Sr. Stenographer-Clerk	2	@	2,460
	1	@	2,262
	1	@	2,154
Prin. Stenographer-Secretary	3	@	3,762
	1	@	2,970 (C.C.)
Prin. Stenographer-Clerk	1	@	2,562
Adv. Stenographer-Secretary	2	@	3,420
	1	@	3,330
Spec. Stenographer-Secretary	1	@	3,222
Sr. Corres. Secretary	1	@	3,222
Jr. Corres. Secretary	1	@	2,154
Stenographer-Typists	3	@	2,262
Female Typists	1	@	2,460
Prin. Typist Clerk	1	@	2,562
Adv. Mail Clerk	1	@	2,364
Clerk	1	@	2,262
Sr. Janitresses	2	@	1,704

TOTAL

125





TABLE 9  
DEPARTMENT OF BANKING

Commonwealth of Pennsylvania

INCREASE IN SALARY STANDARDS SINCE 1933

<u>Grade</u>	<u>Title</u>	<u>1933 Range</u>	<u>% of Inc.</u>	<u>1952 Range</u>
-	Secretary of Banking	\$10,000	50	\$15,000
24	Deputies	7,500-9,000	24 - 22	9,324-11,004
23	"	6,000-7,500	26 - 24	7,590-9,324
22	Chief Examiners	5,000-6,000	27 - 24	6,354-7,590
21	Principal Examiners	4,200-5,000	36 - 27	5,718-6,354
20	Advanced Examiners	3,600-4,200	43 - 36	5,136-5,718
19	Senior Examiners	3,000-3,600	53 - 43	4,596-5,136
18	Examiners and Supervising	2,400-3,000	61 - 53	3,870-4,596
17	Jr. Examiners and Clerkships	2,100-2,400	68 - 61	3,528-3,870
16	Asst. Examiners and Clerkships	1,860-2,100	79 - 68	3,330-3,528
15	Secretaries	1,620-1,860	83 - 79	2,970-3,330
14	Clerkships	1,380-1,620	85 - 83	2,562-2,970
13	Typists and Clerks	1,140-1,380	89 - 85	2,154-2,562
12	" " "	1,020-1,140	92 - 89	1,956 - 2,154
11	" " "	900-1,020	Abolished in 1938	

Average Salary 1950 - \$4,950



TABLE 10  
DEPARTMENT OF BANKING  
NUMBER OF EMPLOYEES AND ANNUAL AVERAGE  
SALARY PER EMPLOYEE

(Exclusive of Closed Bank & B.&L. Divisions and Pennsylvania Securities Commission)





TABLE 11

DEPARTMENT OF BANKING

Commonwealth of Pennsylvania

EMPLOYEES BY NUMBER & CLASSIFICATION

DECEMBER 31 - 1947 to SEPTEMBER 15 - 1952 INC.

	1947		1948		1949		1950		1951		9-15-52	
	No.	Annual Salary	No.	Annual Salary	No.	Annual Salary	No.	Annual Salary	No.	Annual Salary	No.	Annual Salary
Secretary of Banking	1	\$ 10,000.	1	\$ 10,000.	1	\$ 10,000.	1	\$ 10,000.	1	\$ 15,000.	1	\$ 15,000.
	3	23,075.	3	24,872.	3	24,872.	3	24,872.	3	27,366.	3	31,386.
	1	6,300.	1	6,900.	1	6,900.	1	6,900.	1	7,590.	1	8,172.
	1	3,090.	1	3,420.	1	3,420.	1	3,932.	1	4,110.	1	4,356.
	6	42,465.	6	45,192.	6	45,192.	6	45,704.	6	54,066.	6	58,914.
Executive Bureau:												
	4	12,498.	4	13,452.	4	13,632.	4	14,736.	4	16,218.	4	16,926.
	8	21,936.	7	21,816.	7	21,816.	7	23,352.	7	25,710.	7	26,826.
	16	33,768.	16	37,044.	16	36,432.	16	39,960.	14	39,588.	13	37,908.
	6	10,534.	6	11,064.	7	13,632.	7	15,252.	6	13,926.	6	12,858.
	34	78,736.	33	83,916.	34	85,512.	34	93,300.	31	95,442.	30	94,518.
Bank & Trust Bureau:												
	53	200,567.	53	218,592.	54	219,312.	52	219,108.	52	244,314.	49	266,508.
	8	27,027.	8	30,216.	11	36,072.	10	38,388.	10	42,246.	9	42,120.
	8	27,775.	9	36,252.	10	38,184.	9	33,224.	7	28,902.	9	40,188.
	69	255,369.	70	285,060.	75	293,568.	71	291,420.	69	315,462.	67	348,816.
Building & Loan Bureau:												
	1	6,825.	1	7,428.	=	=	=	=	1	7,590.	1	8,172.
	1	5,250.	1	5,772.	1	5,772.	1	5,772.	1	6,354.	1	6,684.
	23	88,476.	22	90,504.	21	90,732.	18	79,932.	18	88,272.	17	96,840.
	2	7,434.	2	8,172.	2	8,172.	2	8,172.	2	9,864.	2	9,864.
	28	107,985.	27	111,876.	25	104,676.	22	94,668.	23	112,080.	22	121,560.
Liquidation Division:												
	1	4,560.	1	5,016.	1	5,016.	1	5,016.	=	=	=	=
	1	4,560.	1	5,016.	1	5,016.	1	5,016.	1	5,520.	=	=
	1	3,936.	1	4,332.	=	=	=	=	=	=	=	=
	3	13,056.	3	14,364.	2	10,032.	2	10,032.	1	5,520.	=	=
	140	497,611.	139	540,408.	142	538,980.	135	535,124.	130	582,570.	125	623,808.
Sub-Total												
Pennsylvania Securities Commission	13	43,048.	15	55,760.	17	61,192.	15	56,308.	15	62,162.	15	71,162.
Grand Total	153	\$540,659.	154	\$596,168.	169	\$600,172.	150	\$591,432.	145	\$644,732.	140	\$694,970



TABLE 12

## COMPARATIVE SALARY RATES - BANK EXAMINERS

Title	Penna. Grade	Pennsylvania	New York		Federal Agencies		
		1952 Salary Range	1952 Basic Salary Range	1952 Range with cost of living allowance	1952 Agency A Basic Salary Range	1952 Agency B Basic Salary Range	1952 Agency C Basic Salary Range
Chief Examiner	23	\$7,590 - \$9,324	\$10,375 \$12,475	\$11,925 \$14,223	\$10,800 \$11,800 9,600 10,600 8,360 9,360	\$ 7,700 \$10,800	\$11,400 \$14,800
Special Examiner	22	6,354 - 7,590	9,063 10,638	10,436 12,224	7,040 8,040 8,360 9,360	6,400 8,600	
Principal Examiner	21	5,718 - 6,354	7,225 8,800	8,350 10,138	5,940 6,940		
Advance Examiner	20	5,136 - 5,718	5,650 6,910	6,562 7,992	5,060 6,185	5,800 7,800	5,675 11,400
Senior Examiner	19	4,596 - 5,136					
Examiner	18	3,870 - 4,596	4,242 5,232	4,964 6,088	3,410 4,535 4,205 5,330	3,480 4,700 4,300 5,800 4,700 6,400	2,900 5,375 3,775 5,375





TABLE 13

TRANSPORTATION, LODGING, SUBSISTENCE, ANNUAL AND SICK LEAVE ALLOWANCES,

HOLIDAYS AND METHODS OF APPOINTMENT AND PROMOTION

(Bank Examiner)

FEDERAL AGENCIES

PENNSYLVANIA

NEW YORK

AGENCY A

AGENCY B

AGENCY C

Headquarters

Residence of examiner

District office if examiner resides within 25 miles of such office

District office--where location required, residence of examiner

Wherever district headquarters are located

Transportation

Rail

Whenever practicable--but exemption certificates as to Federal taxes must be used

Same as Pennsylvania--but if distance from residence exceeds that from District office--only lesser cost recoverable

First class travel either travel orders or use of tax exemption certificates required

Same as Agency A

Pullman

When continuous one way journey exceeds 110 miles. Tax exemption certificates must be used

Berth rates and chaircar rates. Tax exemption certificates must be used

Provided as required. Tax exemption certificates must be used

Provided when one way distance requires in excess of 2 hours. Tax exemption certificates must be used

Personal Auto

Where bank under examination is located in same city as headquarters--or for travel to the District office--only rail, bus or trolley fares are allowed. Otherwise allowance is six (6) cents per mile, plus one (1) cent per mile for each additional passenger. Parking or storage charges up to \$1.50, plus Pennsylvania Turnpike and other toll charges are allowed. Receipts for storage and toll charges must be obtained. No requirement as to insurance

Authorized where travel to and from a destination not available using common carrier, or if there is advantage to State. An all-inclusive charge of eight (8) cents per mile is permitted--toll charges reimbursement. All examiners driving cars on State business must carry--in favor of self and state--liability for injury \$10,000 - \$20,000 and property damage insurance

Over-all allowance of seven (7) cents per mile. Public liability \$5,000 to \$10,000 and property damage insurance required to be carried by examiner

Allowance for one is five (5) cents per mile--seven (7) for two or more--plus \$1.00 per day storage and all toll charges. Examiners are required to carry personal injury and property damage insurance

Taxicabs

Only when buses and trolleys are not available otherwise explanation must be provided

Same as Pennsylvania

Allowed when luggage is involved--otherwise in emergency only

Same as Agency A

Air Travel

Between points exceeding 150 miles--State travel orders or receipts required

When authorized by head of department or district

Same as Agency A

Same as Agency A



TABLE 13

TRANSPORTATION, LODGING, SUBSISTENCE, ANNUAL AND SICK LEAVE ALLOWANCES.

HOLIDAYS AND METHODS OF APPOINTMENT AND PROMOTION (Cont'd)  
(Bank Examiner)

FEDERAL AGENCIES

	PENNSYLVANIA	NEW YORK	AGENCY A	AGENCY B	AGENCY C
Holidays	Same thirteen (13) holidays as celebrated by other Commonwealth departments plus such additional as are proclaimed by the Governor	All holidays celebrated by banks	Eight (8) major holidays. On minor holidays, where practicable, examiners are assigned to work in office	All holidays celebrated by banks--allowed as eight (8) hour day for purposes of calculating overtime over forty (40) hours per week	Eight (8) major holidays. On minor holidays, where practicable, examiners are assigned to work in office
Appointment and Promotion	Appointment requires political sponsor after which candidate for position of bank examiner (of the Bank Examination Bureau only) is required to take a written examination (see page 25) Salary increase within the same grade requires approval by Governor's Personnel and Budget Bureau. Promotion to next higher grade (classification) requires approval by Governor's Personnel and Budget Bureau and the Executive Board	Required to pass civil service examination. Appointments made from civil service list using the "rule of three". Promotion to next higher classification by passing promotional examination	Required to pass civil service examination. Appointments made from civil service list using the "rule of three" Promotion from trainee examiner to assistant examiner grades based on merit. To qualify for examiner grade a promotional examination taking 4½ days, in Washington must be passed. From that point on, promotion is based on merit and existence of vacancies.	Selection made on basis of satisfactory qualifications. Promotions from grade to grade are based only on demonstrated merit	Selection made on basis of satisfactory qualifications. All appointments are made as assistant examiner (two grades). Promotion to examiner grade requires taking examination in Washington, similar to Agency A. Promotion thereafter based on merit and existence of vacancies

(Note: Rule of three - Names of three (3) at top of eligible list are certified, from which a selection is made by an appointing officer)

(Note: At present some of newly appointed assistant examiners of each Federal agency are being sent to Washington to attend an examiners' school for a period of five to six weeks indoctrination)



TABLE 13

TRANSPORTATION, LODGING, SUBSISTENCE, ANNUAL AND SICK LEAVE ALLOWANCES,

HOLIDAYS AND METHODS OF APPOINTMENT AND PROMOTION (Cont'd)

(Bank Examiner)

FEDERAL AGENCIES		AGENCY A		AGENCY B		AGENCY C	
PENNSYLVANIA		NEW YORK					
<u>Lodging</u>	Hotel allowance is limited to \$5.85 per day but when rooms at respectable hotels exceed allowances, proper explanation must be given on expense voucher	Hotel allowance up to \$6.00 per day with \$3.00 per day for motel etc. Tax exemption certificates must be used where occupancy tax in effect	Flat allowance of \$9.00 per day--divided into quarter day periods	Hotel and subsistence allowance at cost--but required to be reasonable. Where there is occupancy tax in effect tax exemption certificate must be used	Flat allowance of \$9.00 per day--divided into quarter day periods		
<u>Subsistence</u>	(Including tips) Not allowed when Breakfast \$ .75 working on reports Lunch 1.00 at District office. Dinner 2.75 \$1.00 lunch is allowed where bank is located in same city as headquarters. When meals are taken in dining cars or at conventions or conferences and costs exceed allowances, proper explanation on expense vouchers is required. \$4.50 Where meals are taken enroute on dining cars or buses--cost should not exceed--Breakfast \$1.25 Lunch 2.00 Dinner 3.00 \$6.25	Breakfast \$1.00 Not allowed when Lunch 1.50 work is performed Dinner 2.50 at home or at District office \$5.00	See above	See above	See above		
<u>Annual Leave</u>	Fifteen (15) working days	Twenty (20) working days	Working days One (1) to three (3) years 13 Four (4) to fifteen (15) years 20 Over fifteen (15) years 26 Maximum cumulative 60	Up to ten (10) years 2 weeks After ten (10) years 2 weeks (plus one (1) working day allowance for each year--up to three (3) weeks)	Working days One (1) to three (3) years 13 Four (4) to fifteen (15) years 20 Over fifteen (15) years 26 Maximum cumulative 60		
<u>Sick Leave</u>	Fifteen (15) working days but whenever illness exceeds allowance decision is on basis of merit, length of service, time used in other years etc.	One (1) day per month cumulative to a total of one hundred fifty (150) working days. Superintendent of Banks may approve additional periods of three (3) months at half pay	Maximum annual allowance is thirteen (13) working days but cumulative without limit	Not charged, each case decided on merit, length of service, type of illness etc.	Maximum annual allowance is thirteen (13) working days, but cumulative without limit		





TABLE 14

COMPARATIVE SALARY RATES - BUILDING AND LOAN EXAMINERS

	<u>PENNSYLVANIA</u>		<u>HOME LOAN BANK BOARD</u>
	<u>Salary Range</u>		<u>Salary Range</u>
Director	\$7,590 - \$9,324	Chief Examiner	\$10,800 - \$11,800
		District Examiner	8,360 - 9,360
		Asst. District Examiner	7,040 - 8,040
Special B & L Examiner	6,354 - 7,590	G.S. - 11 - \$5,940 - \$6,940 )	All are classified as examiners and promotion is based on merit. No pro- motional examination is required.
Principal B & L Examiner	5,718 - 6,354	G.S. - 10 - 5,500 - 6,625 )	
		G.S. - 9 - 5,060 - 6,185 )	
Advance B & L Examiner	5,136 - 5,718	G.S. - 7 - 4,205 - 5,330 )	
		G.S. - 5 - 3,410 - 4,535 )	



TABLE 15

TRANSPORTATION, LODGING, SUBSISTENCE, ANNUAL AND SICK LEAVE ALLOWANCES,HOLIDAYS AND METHODS OF APPOINTMENT AND PROMOTION

(Building and Loan Examiner)

	<u>PENNSYLVANIA</u>	<u>HOME LOAN BANK BOARD</u>
<u>Headquarters</u>	Residence of examiner.	District office - either Philadelphia or Pittsburgh.
<u>Transportation</u>		
<u>Rail</u>	Whenever practicable - but exemption certificates as to Federal taxes must be used.	First class travel - either travel orders or use of tax exemption certificates required.
<u>Pullman</u>	When continuous one way journey exceed 110 miles. Tax exemption certificates must be used.	When one way distance requires in excess of 2 hours. Tax exemption certificates must be used.
<u>Personal Auto</u>	Where association under examination is located in same city as headquarters - or for travel to the District office - only rail, bus or trolley fares are allowed. Otherwise allowance is six (6) cents per mile, plus one (1) cent per mile for each additional passenger. Parking or storage charges up to \$1.50, plus Pennsylvania Turnpike and other toll charges are allowed. Receipts for storage and toll charges must be obtained. No requirement as to insurance.	Allowance for one or more is five (5) cents per mile plus necessary storage and toll charges. No requirement as to insurance.
<u>Taxicabs</u>	Only when buses and trolleys are not available otherwise explanation must be provided.	Allowed when baggage is involved - otherwise in emergency only but limited to \$3.00 plus tip per trip.
<u>Air Travel</u>	Between points exceeding 150 miles - State travel orders or receipts required.	Optional - where benefits justify.
<u>Lodging</u>	Hotel allowance is limited to \$3.85 per day but when rooms at respectable hotels exceed allowances, proper explanation must be given on expense voucher.	Flat allowance of \$9.00 per day divided into quarter day periods.



TABLE 15

TRANSPORTATION, LODGING, SUBSISTENCE, ANNUAL AND SICK LEAVE ALLOWANCES,HOLIDAYS AND METHODS OF APPOINTMENT AND PROMOTION (Cont'd)

(Building and Loan Examiner)

	<u>PENNSYLVANIA</u>	<u>HOME LOAN BANK BOARD</u>
<u>Subsistence</u>	(Including tips) Not allowed Breakfast \$ .75 when working Lunch 1.00 on reports Dinner <u>2.75</u> at District <u>\$4.50</u> office. \$1.00 lunch <u>is</u> allowed where association is located in same city as headquarters. When meals are taken in dining cars or at conventions or conferences and costs ex- ceed allowances, proper ex- planation on expense voucher is required.	See lodging,
<u>Annual Leave</u>	Fifteen (15) working days	One (1) to three (3) years 13 working days Four (4) to fifteen (15) years 20 working days Over fifteen (15) years 26 working days Maximum cumulative 60 working days
<u>Sick Leave</u>	Fifteen (15) working days but whenever illness exceeds al- lowance decision is on basis of merit, length of service, time used in other years etc.	Maximum annual allowance is thirteen (13) working days but cumulative without limit.
<u>Holidays</u>	Same thirteen (13) holidays as celebrated by other Common- wealth departments plus such additional as are proclaimed by Governor.	Eight (8) major holidays. Examiners work at association office on minor holidays whenever arrangements can be made.
<u>Appointment and Promotion</u>	Appointment requires political sponsor. Salary increase within the same grade requires approval by Governor's Person- nel and Budget Bureaus. Pro- motion to next higher grade (reclassification) requires approval of Governor's Person- nel and Budget Bureaus and the Executive Board	Required to pass civil service examination. Appointments made from civil service list using the "Rule of Three". All appointees are classified as examiners and promotions to higher classifications are based on merit. (Note: Rule of Three - names of three (3) at top of eligible list are certified, from which a selection is made by an appointing officer)



## EXHIBIT 1

### DEPARTMENT OF BANKING

Commonwealth of Pennsylvania

### EXPENSE REGULATIONS

#### Section 1 - Official Headquarters

The headquarters of all members of the Examining Force is hereby designated to be the domicile of each Examiner resident within the territory to which he is assigned.

#### Section 2 - Change of Headquarters

The headquarters of an employee may be changed at will by the Secretary of Banking.

#### Section 3 - Transportation

##### (A) - Rail

Travel by rail is authorized whenever practicable. The Department urges the use of State travel orders. Round trip tickets should be used whenever the return trip will be made directly back to the starting point. Pullman accommodations may be used when the continuous journey exceeds 110 miles one way. When railroad tickets are paid for from personal funds, claims for reimbursement must not include Federal taxes. Exemption certificates are available for use to cover such taxes.

##### (B) - Personal Auto

Personal auto may be used whenever the employee so elects except for travel from official headquarters to the District Office or to a bank under examination where such bank is located in the same city where the District Office or official headquarters are located, in which cases only railroad, bus or trolley fares will be allowed. When other Examiners are traveling to the same destination as the employee driving the car, arrangements should be made to carry as many as is reasonably possible. The driver of the car should indicate on the reverse side of his expense account the name or names of the other Examiners furnished transportation. Those Examiners to whom transportation was furnished should supply the name of the driver with whom they rode. Reimbursement may be claimed by the driver at the rate of .06¢ per mile when traveling alone. An additional reimbursement of .01¢ per mile is allowed for each passenger. Claims for parking or storing personal autos, not exceeding \$1.50 for inside storage, and Pennsylvania Turnpike toll charges will be paid provided proper receipts are obtained.





#### (C) - Taxi Cabs

The use of taxi cabs will not be allowed between railroad stations and official headquarters while street cars or busses are running. In the event street cars or busses are not running, the hire of cabs will be allowed provided proper explanation is made on the reverse side of the expense voucher.

#### (D) - Airplane

Transportation by air is authorized for travel between points of departure and destination exceeding 150 miles. Such charges must be supported by State travel order or receipt.

#### Section 4 - Lodging

Hotel expenses will be allowed where the distance from official headquarters makes travel impracticable or where the nature or duration of the work assigned makes return inadvisable. In borderline cases of "impracticability" or "inadvisability", Examiners should first obtain the approval of their Chief Examiners before incurring hotel expenses.

Examiners are expected to procure accommodations in respectable hotels at the most reasonable rates obtainable. The maximum charge for a hotel room shall not exceed \$3.85 per day except in those cases where crowded conditions created by conventions or other unusual causes make it impossible to obtain satisfactory accommodations within said maximum. In those exceptional cases where the maximum established herein must be exceeded, Examiners should arrange with the hotel management for transfer at the first opportunity to more reasonably priced quarters. A full explanation must be given on the reverse side of the expense voucher, for all charges exceeding the maximum prescribed herein.

The Department urges the use of State hotel orders. In case an Examiner pays for hotel accommodations from his personal funds, a properly signed receipt must be obtained.

Where Examiners elect to lodge with relatives or friends, no charges for lodging will be approved.

#### Section 5 - Subsistence

Claims for meals will include tips and shall not exceed the following maximum allowances:

Breakfast	\$ .75
Lunch	1.00
Dinner	<u>2.75</u>
	\$ 4.50



Claims for meals will not be allowed an Examiner during the time he elects to write his reports at his District Office. Claims for meals within the rules and regulations set forth hereunder will be allowed field Examiners during the time they are performing official work for the Department of Banking at the premises of a banking institution.

(Exception) Where meals are taken in railroad dining cars or at scheduled conventions or conference meetings and it is necessary to exceed the maximum allowances, proper explanation should be made on the expense voucher.

The following regulations concerning meals must be observed by an Examiner when arriving at or leaving official headquarters:

- A. He must not charge breakfast when leaving official headquarters after 7:00 A. M.
- B. He must not charge lunch when arriving at official headquarters prior to 2:00 P. M., or when leaving after 12:00 Noon.
- C. He must not charge dinner when arriving at official headquarters prior to 7:00 P. M., or when leaving after 6:00 P. M.

Times of departure and arrival should be listed on the reverse side of the voucher for all trips where meal expense is claimed.

#### Section 6 - Miscellaneous

Telephone and Telegraph charges must be explained and should be incurred only when absolutely necessary.

Postage. The use of postage should be explained and receipts must be submitted for all purchases of \$1.00 or more.

Receipts must be obtained for every item of expense except:

Railroad Fare (Not Pullman)  
Taxi Cab  
Street Car or Bus Fares  
Personal Auto  
Meals  
Tips  
Telephone and Telegraph  
Postage (Under \$1.00)

No item of expense will be approved where a receipt is missing unless it is impossible to obtain one, in which case the inability to do so shall be fully explained. Mere inconvenience in the matter of securing receipts will not be a satisfactory explanation for the failure to obtain a proper receipt.



### Section 7 - Tips

Claims for reasonable tips actually incurred will be allowed with the exception of tips made to waiters or waitresses which must be included in the cost of the meal.

### Section 8 - General

Each employee is expected to use the same care in incurring expenses for which he will seek reimbursement that a prudent person would exercise in the expenditure of his personal funds. In no event will an employee be reimbursed for expenses incurred in traveling on Departmental business in a greater sum than the actual amount expended because of the necessity of that travel.

### Section 9 - Outstanding Regulations - Effective Date

This Regulation shall apply to all expenses incurred on and after February 28, 1952. All previously issued Regulations pertaining in any way to official headquarters, changes thereof, transportation by any method whatsoever, lodging and subsistence are hereby revoked. All members of the Examining Force should remove such revoked Regulations from their files and destroy them.





EXHIBIT 2  
COMMONWEALTH OF PENNSYLVANIA  
BUDGET BUREAU - GOVERNOR'S OFFICE

SCHEDULE OF CLASSIFIED SALARIES  
DEPARTMENTAL CLASSIFICATION  
EFFECTIVE JULY 16N, 1951

<u>Grade</u>	<u>Minimum</u>	<u>1 Year</u>	<u>2 Years</u>	<u>3 Years</u>	<u>4 Years</u>	<u>Maximum</u>
25 Prior	10,000	-	-	-	-	12,000
July, 1951	11,004	-	-	-	-	13,200
24 Prior	8,472	9,000	9,528	-	10,000	10,000
July, 1951	9,324	9,900	10,482	-	11,004	11,004
23 Prior	6,900	-	7,428	7,950	8,472	8,472
July, 1951	7,590	-	8,172	8,748	9,324	9,324
22 Prior	5,772	6,072	6,360	6,636	6,900	6,900
July, 1951	6,354	6,684	6,996	7,302	7,590	7,590
21 Prior	5,196	5,376	5,544	5,772	5,772	5,772
July, 1951	5,718	5,916	6,102	6,354	6,354	6,354
20 Prior	4,668	4,848	5,016	5,196	5,196	5,196
July, 1951	5,136	5,334	5,520	5,718	5,718	5,718
19 Prior	4,176	4,332	4,500	4,668	4,668	4,668
July, 1951	4,596	4,770	4,950	5,136	5,136	5,136
18 Prior	3,516	3,732	3,960	4,176	4,176	4,176
July, 1951	3,870	4,110	4,356	4,596	4,596	4,596
17 Prior	3,204	3,252	3,336	3,420	3,516	3,516
July, 1951	3,528	3,582	3,672	3,762	3,870	3,870
16 Prior	3,024	3,108	3,204	3,204	3,204	3,204
July, 1951	3,330	3,420	3,528	3,528	3,528	3,528
15 Prior	2,700	2,772	2,844	2,928	3,024	3,024
July, 1951	2,970	3,054	3,132	3,222	3,330	3,330
14 Prior	2,328	2,412	2,508	2,604	2,700	2,700
July, 1951	2,562	2,658	2,760	2,868	2,970	2,970
13 Prior	1,956	2,052	2,148	2,232	2,328	2,328
July, 1951	2,154	2,262	2,364	2,460	2,562	2,562
12 Prior	1,776	1,872	1,956	1,956	1,956	1,956
July, 1951	1,956	2,064	2,154	2,154	2,154	2,154



## EXHIBIT 3

COMMONWEALTH OF PENNSYLVANIA  
BUDGET BUREAU - GOVERNOR'S OFFICESALARY SCHEDULE FOR  
HOURLY AND PER DIEM OFFICE EMPLOYEES  
EFFECTIVE JULY 16N, 1951

<u>Annual Salary</u>		<u>Daily Rates</u>		<u>Hourly Rates</u>	
<u>Prior</u>	<u>July 16N, 1951</u>	<u>Prior</u>	<u>July 16N, 1951</u>	<u>Prior</u>	<u>July 16N, 1951</u>
\$ 1,776	\$ 1,956	\$ 7.16	\$ 7.89	\$ 0.96	\$ 1.05
1,872	2,064	7.55	8.32	1.01	1.11
1,956	2,154	7.89	8.69	1.06	1.16
2,052	2,262	8.27	9.12	1.11	1.22
2,148	2,364	8.66	9.53	1.16	1.27
2,232	2,460	9.00	9.92	1.20	1.32
2,328	2,562	9.39	10.33	1.26	1.38
2,412	2,658	9.73	10.72	1.30	1.43
2,508	2,760	10.11	11.13	1.35	1.48
2,604	2,868	10.50	11.56	1.40	1.54
2,700	2,970	10.89	11.98	1.46	1.60
2,772	3,054	11.18	12.31	1.49	1.64
2,844	3,132	11.47	12.63	1.53	1.68
2,928	3,222	11.81	12.99	1.58	1.73
3,024	3,330	12.19	13.43	1.63	1.79
3,108	3,420	12.53	13.79	1.67	1.84
3,204	3,528	12.92	14.23	1.73	1.90
3,252	3,582	13.12	14.44	1.75	1.93
3,336	3,672	13.45	14.81	1.80	1.98
3,420	3,762	13.79	15.17	1.84	2.03
3,516	3,870	14.18	15.60	1.89	2.08
3,732	4,110	15.05	16.57	2.01	2.21
3,960	4,356	15.97	17.57	2.13	2.34
4,176	4,596	16.84	18.53	2.25	2.47
4,332	4,770	17.47	19.23	2.33	2.57
4,500	4,950	18.15	19.96	2.42	2.66
4,668	5,136	18.83	20.71	2.51	2.76
4,848	5,334	19.55	21.51	2.61	2.87
5,016	5,520	20.23	22.26	2.70	2.97
5,196	5,718	20.95	23.06	2.80	3.08
5,376	5,916	21.68	23.85	2.89	3.18
5,544	6,102	22.36	24.60	2.98	3.28
5,772	6,354	23.28	25.62	3.11	3.42
6,072	6,684	24.49	26.95	3.27	3.59
6,360	6,996	25.65	28.21	3.42	3.76
6,636	7,302	26.76	29.44	3.57	3.93
6,900	7,590	27.83	30.61	3.71	4.08
7,428	8,172	29.95	32.95	4.00	4.40
7,950	8,748	32.06	35.27	4.28	4.70
8,472	9,324	34.16	37.59	4.56	5.01
9,000	9,900	36.29	39.92	4.84	5.32
9,528	10,482	38.42	42.27	5.12	5.64
10,000	11,004	40.32	44.37	5.38	5.92
12,000	13,200	-	53.23	-	7.10

PART-TIME EMPLOYEES

The proper pay under the rules set forth should be determined for a full-time employee and the part-time employee should be paid the fraction which the time he works bears to full time.

The above rates are based on 248 working days in year, and 7-1/2 hours per day.



**EXHIBIT 4.**

### Additional 3. Compensation

- [illegible]

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TO BE FILLED IN BY THE IMMEDIATE SUPERVISOR

15. Are answers on other side (and supplementary form) factually and accurately stated? \_\_\_\_\_ (Yes or No). If "No", explain \_\_\_\_\_

16. Who checks or reviews this employee's work and what is the nature of the check or review? \_\_\_\_\_

17. Budget Appropriation for this position \_\_\_\_\_

The foregoing statements are correct and complete:

Signature of Immediate Supervisor \_\_\_\_\_ Date \_\_\_\_\_

Title \_\_\_\_\_

Approved by \_\_\_\_\_ Date \_\_\_\_\_

Title \_\_\_\_\_

**EXHIBIT 4.**

Name of Employee \_\_\_\_\_ Division, \_\_\_\_\_  
 Department \_\_\_\_\_ Unit or \_\_\_\_\_  
 Office \_\_\_\_\_

[illegible]

Signature of Employee \_\_\_\_\_



No. 10 - No. days per week:

Show number of days worked, including fractions for portions of day.  
(Employee working Monday through Friday, and a half-day Saturday,  
would show "5½".)

No. 11 - Hours per week:

Show total hours regularly worked each week. (Exclusive of lunch time.)

No. 12 - Hours overtime:

Show number of hours worked over regular hours per week, and explain in the space provided under question #14. If "none", so designate.

No. 13 - Number of employees you supervise:

If further elaboration is necessary, explain in question #14.

No. 14 - Description of employee's duties:

Answers to this question should give a complete picture of exactly what the employee does. If necessary, supplementary form should be used to record all duties performed. The regular and most important duties should be listed first and the special or occasional duties last. In the "Time" column should be shown the best estimate by hours, days, fractions or percents of the total working time that is taken up by each kind of work performed. (For example, a Clerk might work on payrolls two hours per day, spend another two hours on routine clerical work, prepare forms for two hours and act as messenger for another two hours.)

EMPLOYEE MUST DATE AND SIGN HIS NAME AT THE BOTTON OF REGULAR FORM AND SUPPLEMENTARY FORM IF USED.

QUESTIONS #15 to #17 INCLUSIVE MUST BE ANSWERED BY  
THE IMMEDIATE SUPERVISOR

No. 15 - Correctness of employee's answers:

If the immediate supervisor believes the answers to Questions #1 to #14 inclusive are substantially correct, he should so note in the space provided. If any answer is incorrect, he should answer "No" and explain in sufficient detail in the space provided.

No. 16 - Check and review of employee's work:

Indicate, by title, who supervises the work of the employee and show the actual degree of supervision that must be exercised - constant, general or occasional.

No. 17 - Budget appropriation for this position:

Show identifying item number in the budget.

DATE - SIGNATURE - AND TITLE OF SUPERVISOR AND DEPARTMENT HEAD.

The supervisor who answers questions #15 to #17 inclusive on the reverse side of the Questionnaire should fill in the date on which he completed the Questionnaire and sign it with his name and title.

The form should be signed and approved by the Bureau, Division or Department Head showing date of approval.

**EDUCATION AND EXPERIENCE INFORMATION**  
(Department of Banking - Commonwealth of Pennsylvania)

EXHIBIT 5

1. Name of Employee \_\_\_\_\_ 2. Payroll Title \_\_\_\_\_

3. Bureau \_\_\_\_\_ 4. Division, Unit, or Office \_\_\_\_\_

5. Date of Birth \_\_\_\_\_ 6. Age \_\_\_\_\_

EDUCATION

Education	Name & Location of School	Date Entered	Date Left	Total Years	Course Pursued	Graduated Yes or No	Degree or Cert. Rec'd.
Grammar School							
High School							
Preparatory School							
College							
Business School							
Correspondence School							

EXPERIENCE

Period				Organization or Firm and Location	Duties	Annual Compensation
From		To				
Mo.	Yr.	Mo.	Yr.			

### EXPERIENCE (Continued)

[illegible]

#### APPENDIX A

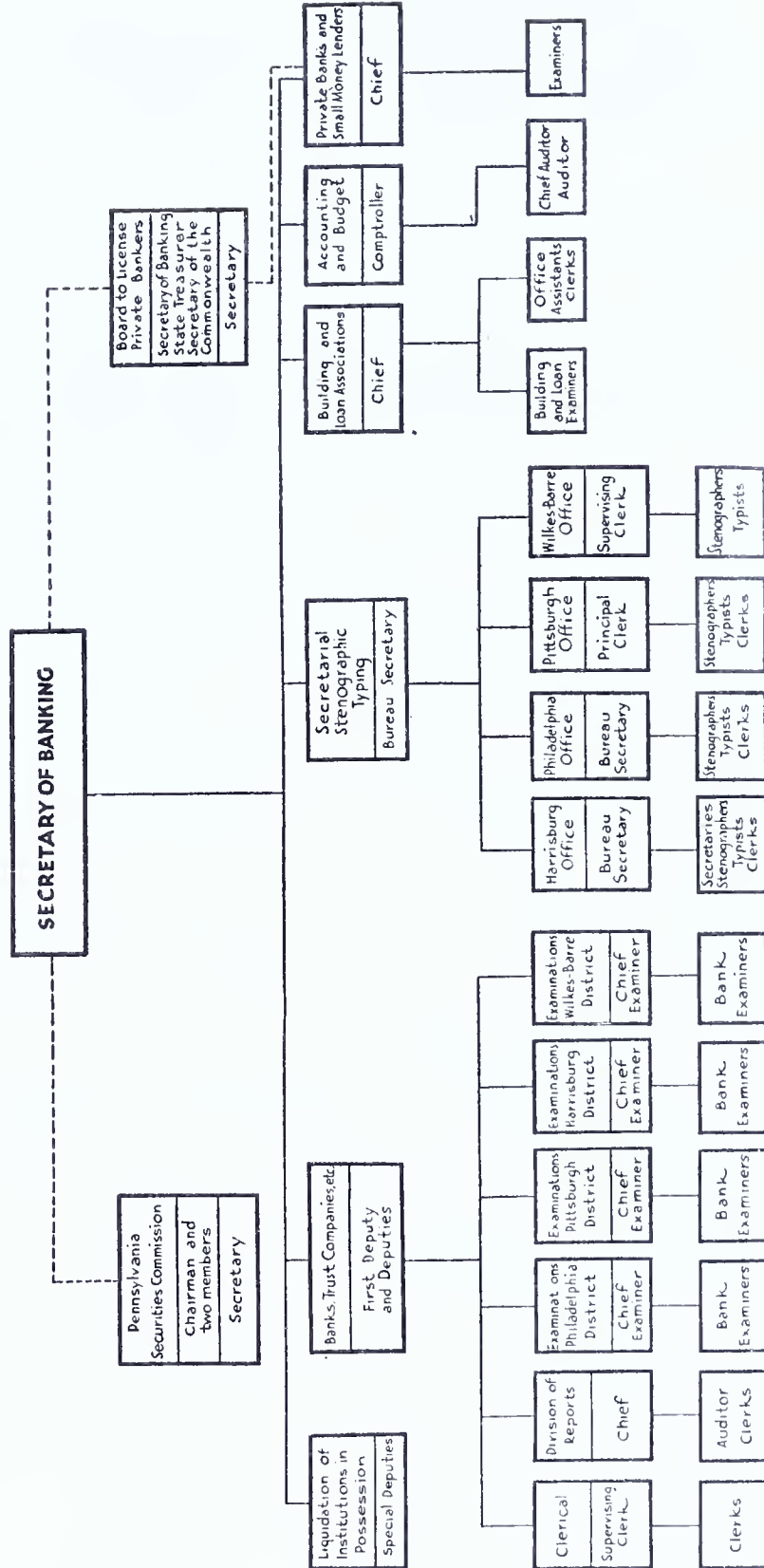
Excerpt from 1934 Joint Legislative Committee on Finances  
Report on the Organization and Administration of the  
Government of the Commonwealth of Pennsylvania, pertaining  
to the Department of Banking and Pennsylvania Securities  
Commission.





# ORGANIZATION CHART OF THE DEPARTMENT OF BANKING

MARCH 1, 1938







## CHAPTER XXI

### DEPARTMENT OF BANKING

The Department of Banking was created in 1891; its powers and duties were enlarged and extended in 1895. These acts remained in effect until 1919, when a new act was passed, which was in turn repealed by the Banking Act of 1923. This act was substantially a reenactment of the Act of 1919 with such minor changes as were necessary to make this law conform to the Administrative Code.<sup>1</sup> A code covering the powers and duties of the Banking Department, which had been in the process of drafting for two years, was enacted in the Session of 1933 and is now in effect.

Duties and Personnel. Under the provisions of the Administrative Code of 1929 and the Department of Banking Code of 1933,<sup>2</sup> the Department has supervision over banks and trust companies, building and loan associations, private banks, small loan companies, and investment contract companies. The number of employes in the Department, engaged in these various duties, and their annual salaries are shown in the table below, as of March 1, 1933:

<u>Bureau and Division</u>	<u>Number of Employes</u>	<u>Annual Salary</u>
Overhead expenses applicable to supervision of banks and trust companies .....	73	\$118,040
Examination of banks and trust companies .....	76	227,260
Supervision and examination of private banks and small loan companies .....	4	10,020
Liquidation of closed institutions .....	2	9,600
Supervision of building and loan associa- tions.....	24	53,600
Examinations of building and loan associa- tions .....	74	199,440
 Total .....	 253	 \$617,960
Pennsylvania Securities Commission .....	26	67,780
 Grand total .....	 279	 \$685,740

A summary of the personnel figures for the Department is shown below for a series of years, as of May 31.

Function	1927	1928	1929	1930	1931	1932	1933
Overhead .....	42	45	47	48	49	70	77
Bank examiners .....	73	83	81	87	93	95	76
Building and loan examiners .....	27	34	47	49	48	61	74
Private bankers and small loans ----	4	5	4	4	4	5	4
Liquidation .....	13	17	19	20	18	22	22
Building and loan supervision .....	28	29	26	28	28	28	26
Pennsylvania Securities Commission--							
Totals .....	187	213	224	236	240	284	281

<sup>1</sup>Act of June 8, 1891 (P. L. 217); Act of February 11, 1895 (P. L. 4); Act of May 21, 1919 (P. L. 209); Banking Act of June 15, 1923 (P. L. 809).

<sup>2</sup>Department of Banking Code, Act of May 15, 1933 (P. L. 565).



Considering the extremely serious economic and financial conditions which have prevailed during the later years covered by this table, the increase in personnel is indeed a moderate one. The nature of the additional work performed by this Department is described below.

As at present organized, the Pennsylvania Securities Commission and the Board to License Private Bankers come under the supervision of the Department of Banking. The first of these agencies is discussed in Chapter XXVIII of this Report; the latter in another section of this Chapter. Separate divisions have been set up with regard to each important service rendered by the Department, namely, for the supervision of banks and trust companies; for the liquidation of institutions in possession; statistical; supervision of secretarial, stenographic and typing work; supervision of building and loan associations; budgetary and accounting work; and supervision of private banks and small money lenders.

### Supervision of Banks and Trust Companies

The law provides that all corporations now or hereafter incorporated under the laws of this Commonwealth or of any other State, and authorized to transact business in Pennsylvania, which have power to receive, or are receiving, money on deposit, or for safe-keeping, otherwise than as bailees, including all banks, banking companies, cooperative banking associations, trust, safe deposit, real estate, mortgage, title insurance, guaranty, surety, and indemnity companies, savings institutions, savings banks, provident institutions, national banking associations located within this State, now or hereafter incorporated under the laws of the United States, which shall, in pursuance of Federal law or regulation, be granted a permit to act, or shall act, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of insane persons, or in any other fiduciary capacity, shall be under the supervision of the Department.

Under these provisions it is the function of the Section of Banks and Trust Companies to examine banks in accordance with the Banking Code of 1933, which requires that each bank shall be examined at least once in each calendar year. In order that the work may be carried on efficiently, the Commonwealth has been divided into four districts with offices in Philadelphia, Pittsburgh, Harrisburg and Wilkes-Barre, each office being in charge of a Chief Examiner. Early in the present administration of the Department, important changes were made in the examining activities of the Department with a view to greater efficiency and to the more effective protection of depositors. In addition to the four district offices, this Section maintains a small clerical force and a Division of Reports whose business it is to analyze the reports of examinations submitted by the field force and the periodic reports which the Department requires all banks to file.

Prior to 1931, banks were examined once in each calendar year, in the order in which their names appeared in an alphabetical list of the banks in their district. In 1931 when the economic situation became acute, the Department classified all banks into four groups, A, B, C and D. It was decided that while the Department must, in accordance with the law, examine each bank at least once a year, those in





classes A and B were not giving the authorities particular concern. It was desirable to concentrate on banks in classes C and D, and the Department determined, therefore, to examine Class A banks once a year, Class B banks twice a year, Class C banks three times a year, and Class D four times a year, when necessary. These more frequent examinations made it possible to ascertain the condition of the institutions, watch the trend of deposits, the shrinkage of assets, the growing number of bad and doubtful loans, et cetera. When the condition in a given bank became serious, its board was summoned to Harrisburg with a view to cooperating in the solution of the bank's difficulties.

These increased activities required the services of additional personnel; for example, 25 more examiners were needed than would be the case if examinations were made only once a year. A larger clerical force was necessary to type the reports of the examiners, to analyze and interpret such reports and to carry on the greater volume of correspondence. This force also had to study the weekly and monthly reports submitted by the banks themselves. The weekly reports set forth a comparison with other years with respect to deposits, time and demand, to bills payable, and to reserve. The banks are required to compare the current week with the same week a month ago and the same week a year ago; also to compare cumulative weeks to date with cumulative weeks to the same date a year ago. For instance, the first eight weeks of 1933 are compared with the first eight weeks of 1932. Where these reports reveal significant decreases in deposits and reserves, or increases in bills payable, the situation is brought to the attention of Secretary of Banking.

A monthly report system was instituted. In accordance with this plan, each bank submits a detailed balance sheet together with an analysis of any decrease or increase in undivided profits and surplus. Five called reports are also required in the course of a year. Another new type of control which involves additional work is the system of handling depreciation of stocks and bonds. Under this system, the examiner sends in the actual depreciation, and the difference between the market and the book value of all securities in each bank examined. These reports come to Harrisburg for analysis; the Department builds up what it calls a reclassification based upon intrinsic values, as determined by such standard services as Fitch, Moody and Standard Statistics, plus information gathered from brokerage houses and other sources. In this way the Department determines the amount which it will require the banks to write down. This plan was submitted by the Secretary of Banking to the bank supervisors of nine other states, and it was later presented to the National Association of Supervisors of State Banks. Several other states have adopted the plan.

Especially during the period of the depression, the Department has had a serious problem in the handling of securities obtained from officers and directors of banks which have had an impairment of either capital or surplus. As a result, the Department has in its possession today almost five million dollars worth of securities. When the officers and directors of such banks are summoned to Harrisburg for a meeting with the Department, they are given their choice between writing down these securities (which would show a bad statement



and impair the confidence of the community in the institution) and depositing certificates of deposit or AAA bonds. The Secretary of Banking testified before the Committee as follows:

"If we make an examination of a bank and find that its surplus of \$20,000 is wiped out and its capital impaired \$10,000, we call the board of directors to Harrisburg for a hearing and, among other things, inform them that they will have to write the surplus off the books and put up \$10,000 with us under an agreement between the Secretary of Banking and the directors. We hold the \$10,000 so that the bank will be solvent. If they write down the surplus, they take a chance of having the public misinterpret their action. Frequently we obtain the whole \$30,000, so that the bank will not have to write anything off the books."

Prior to the beginning of the present depression approximately 400 banks and trust companies were under the jurisdiction of the Department. During the crisis, 149 of these were closed in two years, thus enormously increasing the work of the Department in liquidating institutions in possession. This function which is in charge of a separate section in the Department, is in times like these of the utmost importance, since the Commonwealth owes it to the stockholders and depositors of closed banks to liquidate their assets as promptly and as economically as possible.

#### Building and Loan Associations

The Department of Banking is given jurisdiction over mutual savings funds, building and loan associations, and any individuals or associations of individuals doing business as building and loan associations, or a business in the nature of a building and loan association, whether under the guise of a deed of trust or otherwise. In order to discharge this responsibility, the Department has established a Section of Building and Loan Associations, whose function it is to audit the accounts of such associations. For this purpose, the Commonwealth is divided into two districts, of which Philadelphia comprises one and the remainder of the State the other. An extensive personnel consisting of senior examiners, examiners, and real estate appraisers, as well as clerks and assistants, is required to carry on the work.

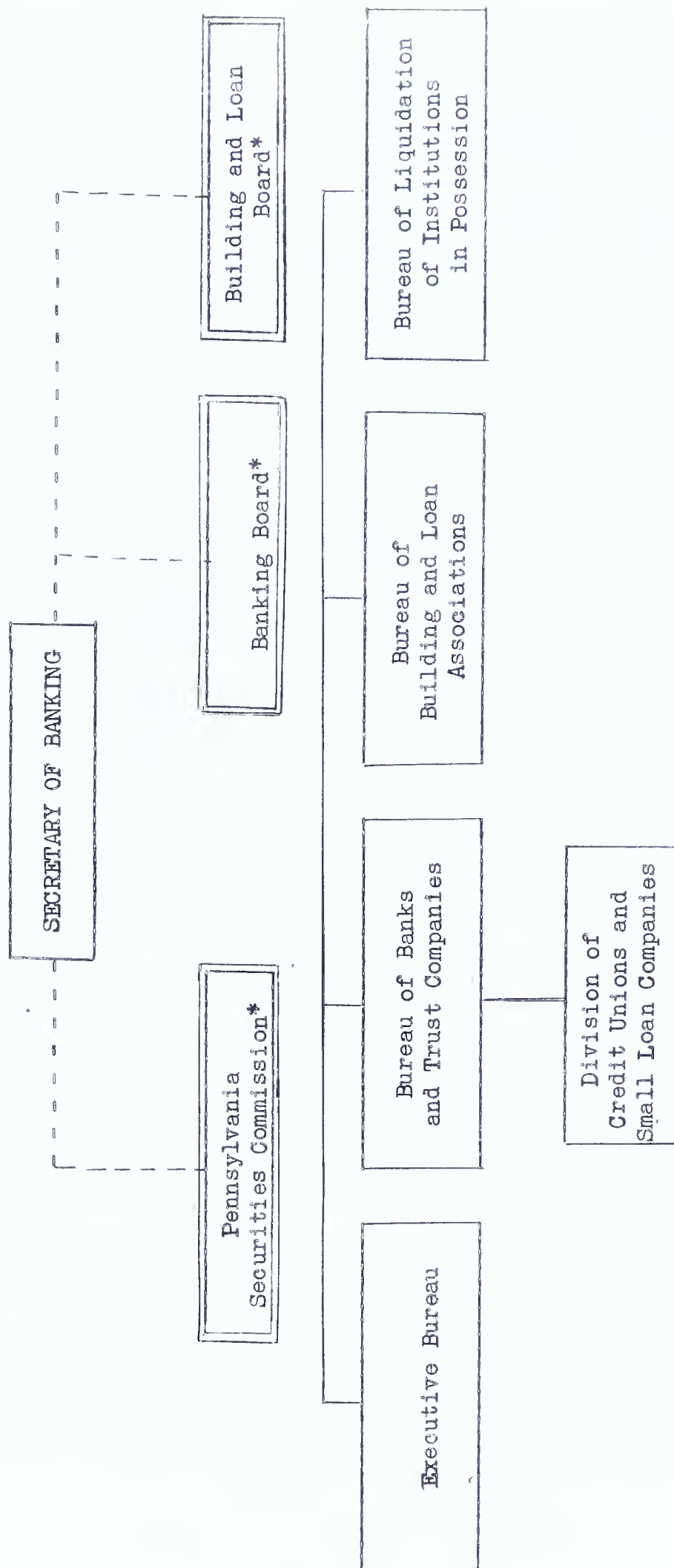
During the period of the depression, the number of building and loan associations has declined one-third, or from 4,500 to 3,000. The auditing work is done in a manner similar to that used in bank examinations, but it is more highly specialized and requires a very carefully trained force. Building and loan associations have been classified into two groups, Class A and Class B. The former are examined about once every 18 months, the latter on the average twice as often. A chronological list is used as a basis, but the Department varies from it at times. Under present conditions, about twice as much time is required to audit the accounts as formerly, due to the large number of delinquents and because of the real estate situation. When business conditions improve, the force engaged in this work can be substantially reduced; this will probably not be possible until after the present biennium.





# CHART XXIII-1

## ORGANIZATION OF THE DEPARTMENT OF BANKING



\* Departmental Administrative Board.



## Private Banks and Small Loan Companies

The Department also has supervision over all unincorporated banks except such as are or shall be exempt by law.<sup>3</sup> Acting under this authority, the Section of Private Banks and Small Money Lenders audits the accounts of those engaged in this type of business. The act under which this work is carried on is peculiarly drafted, and very unsatisfactory in operation. At the time the act was passed, anyone engaged in the private banking business for seven years prior to the date of passage was exempted from its provisions. The act, then, applies only to those who have engaged in business since that time or those who have voluntarily come under the supervision of the Department. In 1931 a bill was introduced embodying a compromise plan worked out with the cooperation of leading private bankers, but the bill was defeated in the Legislature. In 1933, the Banking Code drafted by the Attorney General's Office contained a similar provision, but this, too, was stricken out in the process of enacting the Code. A Board composed of the Secretary of Banking, the State Treasurer and the Secretary of the Commonwealth now licenses those who desire to engage in private banking, and such licensees are subject to supervision. There is no justification for the continuance of a situation in which some private bankers are subject to supervision and others are not.

This Section of the Department also has jurisdiction over all persons, partnerships, associations, or corporations in the business of loaning money in sums of \$300 or less, either with or without security, to individuals pressed by lack of funds to meet immediate necessities, and charging therefor interests in excess of six per cent per annum.<sup>4</sup> Much progress has been made in recent years in the supervision of such companies, under the Uniform Small Loan Act, which has been quite widely adopted.

This Section exercises jurisdiction over all persons, partnerships, associations, or corporations engaged in the business of receiving single payments, regular installment payments, or contributions to be held or used in any plan of accumulation or investment, or of issuing, negotiating, offering for sale, or selling any contract or partial payment or installment plan, or of assuming fixed obligations, or issuing, in connection therewith, a contract based upon payments being made upon installment or single payment, under which all or part of the total amount received is to be repaid at some future time, either with or without profit.<sup>5</sup>

## Other Administrative Agencies

The Department maintains a Section of Accounting and Budgeting with three employees; it takes care of payroll requisitions and of the departmental accounting. In each of the four departmental offices, one finds a portion of the secretarial, stenographic and typing force, with a Bureau Secretary, Principal Clerk or Supervising Clerk in charge. These offices, in the order of the size of the force employed are: Harrisburg, Philadelphia, Pittsburgh, Wilkes-Barre. The steno-

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<sup>3</sup>Private Banking Act of June 19, 1911 (P. L. 1060), as amended April 5, 1927 (P. L. 106) and April 26, 1929 (P. L. 813).

<sup>4</sup>Act of June 17, 1915 (P. L. 1012), as amended June 4, 1919 (P. L. 375).

<sup>5</sup>Act of May 5, 1921 (P. L. 374), as amended April 21, 1923 (P. L. 79).





graphic and clerical forces engaged in banking work and those engaged in building and loan activities are maintained as separate and distinct units. The Department also maintains a statistician. In the discussion of the Department's supervision of banks and trust companies, mention was made of the importance of the liquidation of institutions in possession. This work is carried on by a separate section in the Department, headed by a Special Deputy. He is assisted by two senior examiners, two junior examiners, an assistant examiner and 59 special deputies, whose salaries are paid by the institutions in possession.

#### Income of the Department

The testimony before the Committee showed that all the work of the Department with the exception of the overhead cost of conducting building and loan examinations, is self-sustaining.

Banking Examinations. Men engaged in the work of bank examinations are paid an annual salary, but in connection with the examination of any bank, the Chief Examiner in each district keeps a record of the time which each examiner spends at that bank. The institution is charged at a daily or hourly rate for the service of each employee of the Department who takes part in the examination. In some cases, a large group of men is required. For example, in the recent examination of one large Philadelphia bank, 141 men were used.

The overhead expenses of the Department are allocated as being applicable to the supervision of banks and to the supervision of building and loan associations. That portion of the overhead allocated to bank supervision is then charged to the banks examined in proportion to their assets. The charge amounts to two and one-half cents per thousand dollars on the commercial assets, and one and one-half cents per thousand dollars on the trust assets. While this method is not quite as accurate as that used in the case of examinations, it has produced a revenue adequate to cover the cost of the service. The Secretary of Banking testified that there have been no complaints from the banks about the cost.

The Banking Fund is one of a small number of special funds still maintained. In years past, the auditing of its records was done by recognized firms of public accountants, at a considerable cost to the Fund. Since the passage of the Administrative Code, the Auditor General has been making such audits without any cost to the Banking Department. No part of the General Fund is enriched by the operation of the Department of Banking. Since the General Fund under the law is fixed with the burden of making audits, and since the State Treasurer is likewise burdened by certain business originating in and pertaining to the Department of Banking, the Committee is of the opinion that a more equitable distribution of the cost of government would be brought about, so far as the General Fund is concerned, if the Banking Fund were charged by the Auditor General for auditing expenses, by the State Treasurer for the expense involved in the writing of checks and in the custody of funds, and by the Department of Property and Supplies for heat, light, power, rent and telephone service. In accordance with this theory, the Committee introduced into the Legislative Session of 1933 a bill designed to accomplish this purpose; it was approved by both Houses, and unwillingly vetoed by the Governor,





due to an unusual legal technicality. This bill was an amendment to the Banking Act of 1923; during the Session of 1933, the Banking Code was enacted, which superseded all previous legislation on the subject and all amendments thereto. It would, therefore, have been useless for the Governor to sign the bill. The Committee, however, urgently renews its recommendation that the principle incorporated in its bill to make the Banking Fund self-sustaining be adopted at the next session of the Legislature as an amendment to the Banking Code of 1933. The Budget Office estimates a saving to the General Fund from this source of \$32,526 a biennium.

Building and Loan Associations. Under the present law building and loan associations are charged with the amount representing the direct cost of examination, but the overhead expenses incurred in behalf of these associations remains a charge upon the General Fund. The method of apportioning the cost of examination is similar to that employed in the case of banks. As noted above, the overhead cost of the Department is allocated to the supervision of banks and supervision of building and loan associations, the amount involved in the former being assessed against the banks. The Committee believes that building and loan associations should likewise pay, not only the direct cost of examination, but the overhead expenses incurred by the Department in the maintenance of this service, especially since two-thirds of the members of the associations are savings members only, rather than borrowing homeowners. Toward this end, the Committee introduced a bill which was passed by both Houses of the Legislature and was approved by the Governor. A similar provision was contained in the Department of Banking Code,<sup>6</sup> adopted at the same session; this Code supersedes all previous legislation on the subject, including the act sponsored by the Committee. The Budget Office estimates the saving to the General Fund at \$60,000 a biennium.

Banks in Possession. Banks in possession of the Department for purposes of liquidation pay the costs incurred in their behalf, the same as active banks.

Private Bankers. The license fees charged private bankers more than cover the overhead cost incurred with respect to them, so they are required to pay only the direct cost of their examination.

#### Contributions to Retirement Fund

The testimony before the Committee showed that, in the past, appropriations have been made from the General Fund to cover the State contributions to the State Employees' Retirement Fund for employees in the Department of Banking. The Budget of 1933 charges this contribution to the Banking Fund. The Committee believes that the improvements by legislation attempted in the Session of 1933 would make it possible for this Department to operate on an entirely self-sustaining basis, and at no cost whatever to the revenues of the General Fund. This is in full conformity with the Committee's conviction that types of business requiring regulation should be required to bear the cost of such regulation.

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<sup>6</sup> Act of May 15, 1933 (P. L. 565), Section 204.



## RECOMMENDATIONS

The Committee recommends:

1. That the Banking Fund, like other Special Funds, be required to pay in full its own maintenance and operating costs.
2. That the supervision of the Department be extended over all private banks.



TABLE 2. DEPARTMENT OF BANKING<sup>1</sup>

Number of Officers and Employees Classified According to Salary Grades<sup>2</sup>  
(Data compiled as of June 1 for years 1919 to 1932, and as of February 1, 1933)

	Un- der \$1,200	\$1,200 to \$1,499	\$1,500 to \$1,799	\$1,800 to \$2,399	\$2,400 to \$2,999	\$3,000 to \$3,999	\$4,000 to \$4,999	\$5,000 to \$5,999	\$6,000 to \$7,499	\$7,500 to \$9,999	\$10,000 to \$11,999	\$12,000 and Over	Total Number
<b>Male Employees</b>													
1919	--	1	6	2	4	18	1	--	1	--	--	--	33
1924	1	2	3	15	16	38	7	3	4	--	1	--	90
1927	1	4	9	26	40	36	15	2	3	1	1	--	138
1929	2	6	10	28	43	49	12	8	4	1	1	--	164
1931	2	4	14	36	45	53	12	3	6	1	1	--	177
1932	3	7	12	59	52	53	12	3	6	2	1	--	210
1933	3	6	7	48	50	63	11	4	6	2	1	--	201
<b>Female Employees</b>													
1919	--	3	--	--	--	--	--	--	--	--	--	--	3
1924	5	12	3	2	--	--	--	--	--	--	--	--	22
1927	19	24	6	3	--	--	--	--	--	--	--	--	52
1929	20	18	14	4	--	--	--	--	--	--	--	--	56
1931	23	23	11	5	1	--	--	--	--	--	--	--	63
1932	30	26	11	5	2	--	--	--	--	--	--	--	74
1933	34	26	10	6	2	--	--	--	--	--	--	--	78
<b>Total Employees</b>													
1919	--	4	6	2	4	18	1	--	1	--	--	--	36
1924	6	14	6	17	16	38	7	3	4	--	1	--	112
1927	20	28	15	29	40	36	15	2	3	1	1	--	190
1929	22	24	24	32	43	49	12	8	4	1	1	--	220
1931	25	27	25	41	46	53	12	3	6	1	1	--	240
1932	33	33	23	64	54	53	12	3	6	2	1	--	284
1933	37	32	17	54	52	63	11	4	6	2	1	--	279

<sup>1</sup>The personnel data commonly incorporated in Table 1 are presented in the text of this Chapter.

<sup>2</sup>Includes Pennsylvania Securities Commission beginning with 1927.



TABLE 3. DEPARTMENT OF BANKING

EXPENDITURES BY OBJECT CLASSIFICATIONS IN BIENNIUMS 1923-25 to 1931-33, INCLUSIVE  
(GENERAL FUND)

## I. From Departmental Appropriation

Biennium	Salaries Wages and Fees	Materials Supplies and Printing	Transportation Communication and Information	Maintenance Services and Expenses	Construction Equipment and Land	Subsidies Indemnities and Other Items	Miscellaneous Items Including Reserve	Total Expenditures from Departmental Appropriation
1923-25	\$20,000							\$20,000
1925-27	50,000							50,000
1927-29	89,102	\$15,709	\$7,057	\$11,358	\$762			123,988
1929-31	101,431	3,034	6,914					111,379
1931-33	94,283		17,895				\$8,822	121,000

## II. From Department of Property and Supplies and Labor and Industry Allocations

Biennium	Supplies Equipment Printing, Etc.	Heat Light Power Water Service and Rents	Insurance Surety and Fidelity Bonds	Automotive Supplies and Equipment	Payments by Labor and Industry for Compensation Premiums	Total Expenditures from Allocations	Expenditures by Property and Supplies for Land and Buildings	Grand Total
1923-25								\$20,000
1925-27								50,000
1928-29	\$5,138		\$528			\$5,665 <sup>1</sup>		129,653
1929-31	27,438	\$21,796	603			49,836 <sup>1</sup>		161,215 <sup>2</sup>
1931-33	26,342	46,598	2,271			75,211		346,211

<sup>1</sup> Does not include Pennsylvania Securities Commission these periods; from Securities Commission Fund in 1927-29 and 1929-31.<sup>2</sup> Includes \$150,000 taken from General Fund for Pennsylvania Securities Commission; total expenditures of Commission in 1931-33 - \$158,033.





TABLE 4. DEPARTMENT OF BANKING

GROSS COST, REVENUE DERIVED, AND NET COST OF DEPARTMENT SERVICES, 1931-33

Functions	Act	Estimated Gross Cost 1931-33	Estimated Revenue 1931-33	Estimated Net Cost 1931-33
Overhead expenses applicable to supervision of banks and trust companies -----	June 15, 1923-----	\$305,967	\$305,967	-----
Examinations of banks and trust companies -----	June 15, 1923-----	742,606	742,606	-----
Examinations of building and loan associations -----	June 15, 1923-----	422,933	422,933	-----
Supervision and examination of private banks and small loan companies -----	June 15, 1923-----	31,624	78,523	-\$46,899
Liquidation of closed institutions <sup>1</sup>	June 15, 1923-----	103,814 <sup>1</sup>	103,814 <sup>1</sup>	-----
Overhead expenses applicable to supervision of building and loan associations -----	June 15, 1923 and General Appropriation Act-----	162,498	-----	162,498
Registration and supervision of security dealers and salesmen-----	June 13, 1927 and General Appropriation Act	178,646	180,000	-1,354
Totals -----	-----	\$1,948,088	\$1,833,843	\$114,245

<sup>1</sup>Including bank examiners used as temporary special deputies until permanent special deputies were appointed.



## CHAPTER XXVIII

### PENNSYLVANIA SECURITIES COMMISSION

The Pennsylvania Securities Commission was created in 1923; under the act and subsequent amendments thereto, the primary function of the Commission is the registration of dealers in investment securities, and their agents or salesmen.<sup>1</sup> The Secretary of Banking is ex-officio a member of the Commission, which operates in the Department of Banking for budgetary purposes, but is not otherwise under the control of the Department. There are three Commissioners appointed by the Governor. There are no bureaus, but the work of the Commission falls into four general classes, namely, secretarial, investigation, examination and registration. The Commission has the authority to select a Secretary, who serves as the chief executive officer of the Commission.

The following table shows the personnel and their salaries as of March 1, 1933:

Position	Number of Employees	Annual Salary
Commissioners .....	3	\$21,500
Executive Secretary .....	1	4,140
Investigation .....	7	20,180
Clerks, etc. ....	15	21,960
Total .....	26	\$67,780

The offices of the Commission are located in Harrisburg, with branch offices in Philadelphia and Pittsburgh. The Commission holds frequent meetings to consider applications, to study circulars and prospectuses describing securities, and to direct the work of their staff. In their decisions, they are guided largely by reports and recommendations of the investigators and examiners on their staff.

Secretarial Work. The Secretary of the Commission, who also acts as the chief executive officer, has charge of the general office, superintends all clerical work, conducts correspondence, gives notice of all determinations, rulings and orders of the Commission, prepares and publishes all public notices, required to be given by the Commission under the law, and is custodian of the records of the Commission. He attends all meetings in person in order to present for consideration the various matters appearing on the Commission's calendar. He confers with attorneys, applicants and others having business with the Commission and attests all signatures of the members of the Commission to official documents. Applications are filed annually with this office for over 18,000 licenses for agents and salesmen.

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<sup>1</sup>Act of June 14, 1923 (P. L. 779), amended by Act of April 13, 1927 (P. L. 273) and by Act of March 25, 1929 (P. L. 69); also Section 429 of the Administrative Code of 1929.

<sup>2</sup>Includes four investigators who prosecute violations of the law, one of whom receives \$1,020 from the Banking Department and \$3,060 from the Attorney General's Department; also three examiners who examine applications for dealers' and salesmen's licenses.



## Investigational Work

The investigative part of the Commission's work is in charge of the Chief Field Investigator and has to do with the criminal prosecution of violators of the Securities Act. He investigates all complaints lodged with the Commission, acting under the direction and advice of a Special Deputy Attorney General assigned by the Department of Justice to do the legal work of the Securities Commission. The performance of these duties often requires extensive traveling for the purpose of obtaining information and evidence, and appearance in court when necessary. Over 1,000 investigations have been made since 1926, when the practice of giving each investigation a number was inaugurated.

There are two ways in which cases of suspected dishonesty and fraud in the sale of securities may come to the attention of the Commission. Many of them are brought to light through the fact that the Commission employs one clerk who spends the major portion of his time reading newspaper advertisements of securities. To a trained eye, it is possible to discern very quickly those advertisements, the claims of which are of a suspicious character, or those whose backers are known to have a questionable reputation. A great many cases first come to the attention of the Commission through the filing of complaints regarding violations of the law, either by investment banks or bankers, or by individuals who have been victimized. Occasionally, of course, the complaints of individuals are no more than a reflection of the displeasure of one who has bought in a falling market. Four investigators follow up all complaints and gather the data for prosecution where the facts warrant. Two investigators operate in the Philadelphia area and one each in the Harrisburg and Pittsburgh areas. A table printed in the Ninth Annual Report of the Commission lists 32 criminal prosecutions between September 23, 1931, and April 18, 1932. Eighteen of these resulted in convictions and seven were awaiting trial at the time this table was compiled.

The statutory authority under which this work is carried on is found in Section 25 of the Securities Act, which reads as follows:

"The administration of the provisions of this act shall be vested in the Commission. It shall be the duty of the Commission to see that the provisions of this act are at all times properly administered and obeyed, and to take such measures and make such investigations as will detect the violation of any provisions thereof. In the event it shall discover any such violations, it shall, in addition to revoking any registration, take such measures as may be necessary to cause the apprehension and prosecution of all persons deemed guilty thereof."

For purposes of investigation, the State has been divided into three areas. The Philadelphia office handles investigations in Philadelphia and in adjoining counties; the Pittsburgh office handles investigations west of Altoona, while the Harrisburg office handles those from Altoona east to the counties adjacent to Philadelphia. Year by year, as the existence of this law and of the machinery for its enforcement becomes better known, the number of inquiries and complaints increases. During recent months, the number of letters has averaged about 120 per month, these letters making inquiry with regard to such subjects as the following: Whether companies and individuals are





registered; requesting information of a confidential nature on registered companies (which, however, is never furnished); forwarding literature and tipster sheets, received through the mails, from companies in other states; reporting telephone solicitations; forwarding advertisements appearing in the newspapers; reporting complaints against individuals who have made illegal sales; newspapers requesting information on companies and individuals desiring to insert advertisements relating to securities.

When the Commission has determined that a company or an individual domiciled outside of Pennsylvania is violating the provisions of the act, a registered letter is forwarded to such company or individual, enclosing a copy of the Securities Act and notifying the company that violation of the provisions of the act will subject it to the penalty set forth therein. A press notice is also released and many papers publish this warning. A warning in the newspapers is considered the most effective method of protecting the citizens of the Commonwealth against financial loss by high-pressure mail or telephone and telegraph solicitation. About two per cent of the companies which receive such notices admit ignorance of the law and request registration; the remaining companies were conceived in fraud, could never be registered, and therefore attempt to operate in violation of existing statutes.

After correspondence reveals the fact that a violation of the law exists, an investigator calls upon the complainant to secure pertinent data, including date of solicitation, name and description of salesman, copies of literature, receipts, securities, cancelled checks, and a detailed statement of the representations made by the salesman. This report is then submitted to the Chief Investigator, who prepares a summary of the case for submission to the counsel for the Commission and to the Commission for authority to prosecute. Such approval having been given, orders are issued for the lodging of information for warrant.

No average time for an investigation can be stated. In cases resulting in prosecution, a minimum of four days is required, one for each of the following steps in the procedure: Investigation, hearing before justice of the peace, grand jury, and trial. In most cases, however, it is considered necessary to have at least two persons testify, who have been solicited. Whether or not these witnesses have invested money as a result of the solicitation, their appearance against the defendant is sufficient to prevent his claiming exemption under a section of the act dealing with isolated transactions. The procuring of such witnesses commonly requires additional time.

This description of the method employed in the investigational activities of the Commission has been based entirely upon a memorandum, submitted to this Committee by the Commission. In order to make the description of this service more definite and concrete, the following case studies of investigations are included. These were also furnished by the Commission.

#### Case No. 1.

On December 11, 1931, the Commission was informed that individuals were operating in the northern tier counties, using forged letters claiming they represented the American Bond and Mortgage Com-



pany, stating that the company was collecting all outstanding mortgage issues due to various defaults and giving bonds of equal value in "Affiliated Properties" (a fictitious corporation) supposed to cover all American Bond and Mortgage Company issues. A newspaper warning was released December 18, 1931. Between December 11, 1931, and February 15, 1933, the date on which a warrant was secured, 81 letters were written by the Harrisburg office to Better Business Bureaus and officials in neighboring States, Federal departments in Washington, banks and brokers, four complainants, a district attorney, and the branch offices of the Commission. These letters were written tracing the securities, getting photographs for purposes of identification, securing handwriting of suspects, et cetera.

#### Case No. 2.

On January 5, 1933, three men were arrested in Philadelphia who were operating a somewhat similar racket. Photographs were secured and sent to complainants, resulting in positive identification of one man. A detainer is now lodged against this man in Philadelphia and he will be taken to Bradford County for trial. Other victims from other counties will go to Philadelphia in an effort to establish identification of another of the trio. If successful, additional warrants will be secured. No efforts are spared to capture men of this type. After their arrest, it was revealed that this group had been operating throughout the United States, as bonds from residents of California were found in their possession.

In this case, it is doubtful whether any district attorney's office would or could have devoted the time to following these frauds through a successful conclusion. The voluminous files which this Commission has accumulated in its ten years of existence and its constant contact with similar bodies of other States, with the Attorney General's office of New York State, Better Business Bureaus and Chambers of Commerce, make it comparatively easy to run down all clues.

#### Case No. 3.

This case is an interesting illustration of one requiring a minimum amount of effort on the part of the investigator. On February 2, 1933, a resident of Berks County called at the office of the Commission with a complaint and gave the names of two residents of Dauphin County who had also been victimized. A telephone call brought one lady to the office, who gave the desired information concerning the transactions with herself and sister. As a result information was lodged for a warrant on February 10, 1933, and the warrant placed in the hands of the State Police for service in Philadelphia.

#### Case No. 4.

Unfortunately, in the cases of actual sales which have been made, the individual does not write until some time has elapsed, and by that time the unregistered salesman has often left the confines of the Commonwealth. These cases are investigated and an effort is made to trace the individual through commissions and regulatory bodies of other States. There is a constant exchange of information





on salesmen making illegal sales with our adjoining States, particularly New York and New Jersey.

As an example of what has been accomplished in this respect, in July, 1932, it came to the attention of the Commission that an individual called upon two ladies in Sewickley and succeeded in getting \$1,600 in an alleged exchange of securities. About the same time a similar transaction, by what appeared to be the same individuals, was reported by a lady from Hellertown, who had been induced to surrender \$1,000. This lady recalled the automobile license number of the car. Upon receipt of this information, the Commission communicated with the Automobile License Bureau of the State of New York and secured the name and address of the owner of the automobile. It then communicated with the Attorney General's office of New York, reporting the transaction. As a result the Attorney General of New York ordered the individual in whose name the automobile was registered to appear for a hearing. Before this hearing was held, the lady in Hellertown was again visited by the same individuals and her \$1,000 was returned. The ladies in Sewickley were induced to accept \$1,300 of their original \$1,600 payment.

Cost of Field Offices. According to a letter from the Chairman of the Commission, the cost of the two field offices in Philadelphia and Pittsburgh amounts to \$7,544 a biennium. The Committee believes that these offices should be eliminated. If, in addition to the saving in office rentals, some reduction in the number of investigators could be made during the period of the existing economic emergency, still further savings would be possible. The representatives of the Commission thought that it would be possible to carry on their work without the field offices, but that it would be extremely difficult to do without any of the investigators, if the present standards and work of the Commission are to be maintained.

#### Examinations and Registrations

Examinations. The Commission is required to examine and interpret all information and financial data required to be submitted with applications for the registration of dealers; it examines and interprets information contained in circulars submitted by dealers who are already registered. Reports of all examinations are prepared, as well as hearings held in connection with application for licensure, as a result of which recommendations are submitted to the Commission for its adoption. To date, more than 3,700 dealers' applications have been filed and circulars have been filed upon more than 8,000 issues of securities. The three examiners who carry on this work consider the financial standing of the applicant and all other relative matters.

Registration. A group of seven employes engaged in the registration of dealers and salesmen receive all applications, docket them, collect the necessary filing and registration fees, transmitting the same to the Department of Revenue, and prepare and issue the proper licenses when authorized by the Commission. This Division maintains all necessary records in connection with the work of licensure. Tables 1 and 2 present detailed information with regard to original and renewal applications for both dealers and salesmen, from 1926 to 1933.



Between August 1, 1926, and January 31, 1933, the Commission cancelled suspended or revoked registration of 278 dealers. In the same period 713 dealers' applications for registration were cancelled or refused. It was testified that dealers often withdraw their applications when it appears likely that their applications will be refused. During this same period 9,527 registrations of salesmen were cancelled, suspended or revoked and 1,423 applications were cancelled or refused. The Commission's greatest activity in this respect was in the fiscal year August 1, 1930, to July 31, 1931, since when the number of applications and registrations on which it has acted has declined materially.

#### Finances of the Commission

The registration and license fees collected from dealers and salesmen have for the past several years much more than covered the expenditures of the Commission, as shown in the following table:

Balances Turned into the General Fund of the Commonwealth  
in Years Ending May 31

1924 .....	\$92,777.16
1925 .....	45,004.98
1926 .....	13,385.64
1927 .....	11,278.44
1928 .....	10,734.55
1929 .....	15,130.39
1930 .....	35,388.52
1931 .....	22,470.44
1932 .....	29,386.52
1933 .....	20,611.32

According to the Governor's Budget, the estimated gross cost of the Commission for 1931-33 was \$178,646, revenue derived was \$202,880, and excess of receipts over expenditures \$24,234. The fees now collected are \$10 filing fee and \$40 registration fee for dealers, and \$10 filing fee and \$10 registration fee for salesmen. The registration fee must be paid for each salesman, but the filing fee for salesmen covers as many salesmen as are listed on a single application. The estimated fees collected this year will be approximately \$35,000 less than in 1930.

#### Effectiveness of the Work

The Committee believes that the services of the Commission are of great importance and value for the protection of the public against fraud and deceit. It believes that these functions and services must be continued. This point of view is supported by the testimony of the Chairman of the Commission, who stated that licenses had been refused for the sale of securities aggregating more than a billion dollars. In addition to this, it is impossible to tell the extent to which other undesirable security issues have been kept out of Pennsylvania by the threat of the mere existence of the Commission. Certainly the amount would represent a staggering figure. Since Pennsylvania established this Commission, similar agencies for the enforcement of "blue sky" legislation have been set up in many other States. If, by any chance, this legislation in Pennsylvania should be repealed,





it is certain that the State would become a dumping ground for securities which were not saleable in other jurisdictions, greatly to the loss of the investing public in this Commonwealth.

The Committee considered the possibility of a different organization for the performance of this work. If the duties now vested in the Commission were intrusted to a Deputy Secretary in the Department of Banking and this Deputy were paid the present salary of the Chairman of the Commission, it would be possible to save the salaries of the two other members. The Committee did not sponsor this change because under the present organization the work is not only well done but productive of a substantial amount of revenue. Furthermore, the Committee was convinced that the quasi-judicial nature of a large portion of the work justified the practice of using a commission rather than a single commissioner for its performance. As an emergency measure in the present economic situation, the Committee does recommend, however, that the present salaries paid to the members of the Commission be temporarily reduced by \$2,000. This would give the Chairman an annual salary of \$5,500 and a salary of \$5,000 for the remaining members of the Commission.

#### RECOMMENDATIONS

The Committee recommends:

1. That as an emergency measure one of the investigators in the Philadelphia office be transferred to Harrisburg, and that the two remaining investigators in Philadelphia and the two in Pittsburgh be discontinued, at a substantial saving in salaries.
2. That the Philadelphia and Pittsburgh offices of the Commission be discontinued, with a corresponding saving in rent.
3. That the salaries of the Commissioners be each reduced \$2,000 per annum.



TABLE 1. PENNSYLVANIA SECURITIES COMMISSION  
ORIGINAL AND RENEWAL APPLICATIONS FOR DEALERS' LICENSES, 1926-33

ORIGINAL APPLICATIONS

Year ending July 31-	Applications pending	Applications filed	Total applications to be acted upon	Applications held at end of period	Total applications disposed of	Applications registered	Applications cancelled or refused	Registrations cancelled, suspended or revoked
1927 .....	48	300	348	44	304	163	141	44
1928 .....	44	298	342	34	308	207	101	11
1929 .....	34	317	351	76	275	189	86	7
1930 .....	76	290	366	47	319	216	103	35
1931 .....	47	191	238	25	213	125	88	32
1932 .....	25	157	182	25	157	116	41	5
1933 .....	25	174	199	18	181	148	33	13

RENEWAL APPLICATIONS

Year ending July 31-	Dealers registered as of December 31	Registered dealers not applying for removal	Applications filed	Applications registered	Applications cancelled or refused	Applications pending	Registrations cancelled, suspended or revoked
1927	693	90	603	576	23	4	23
1928	745	95	650	628	20	2	16
1929	817	125	693	659	30	4	18
1930	836	133	703	683	16	4	18
1931	792	139	653	609	30	14	25
1932	679	114	565	557	7	1	32
1933	633	96	537	523	8	6	10



TABLE 2. PENNSYLVANIA SECURITIES COMMISSION  
ORIGINAL AND RENEWAL APPLICATIONS FOR SALESMEN'S LICENSES, 1926-33

ORIGINAL APPLICATIONS

Year ending July 31-	Applications pending	Applications filed	Total applications to be acted upon	Applications held at end of period	Total applications disposed of	Applications registered	Applications cancelled or refused	Registrations cancelled, suspended or revoked
1927 .....	60	1,910	1,970	69	1,901	1,725	176	935
1928 .....	69	2,811	2,880	26	2,854	2,586	268	834
1929 .....	26	2,369	2,395	1	2,394	2,240	154	894
1930 .....	1	3,768	3,769	27	3,742	3,577	165	851
1931 .....	27	4,109	4,136	94	4,042	3,952	90	1,578
1932 .....	94	2,977	3,071	12	3,059	2,780	279	656
1933 .....	12	2,393	2,405	25	2,380	2,269	111	481

RENEWAL APPLICATIONS

Year ending July 31-	Applications pending	Applications filed	Total applications to be acted upon	Applications held at end of period	Total applications disposed of	Applications registered	Applications cancelled or refused	Registrations cancelled, suspended or revoked
1927 .....	1	1,832	1,833	6	1,827	1,809	18	7
1928 .....	6	2,491	2,497	7	2,490	2,462	28	43
1929 .....	7	2,977	2,984	8	2,976	2,936	40	84
1930 .....	8	3,413	3,421	21	3,400	3,386	14	680
1931 .....	21	3,244	3,265	10	3,255	3,192	63	1,291
1932 .....	10	2,956	2,966	0	2,966	2,910	56	984
1933 .....	0	2,517	2,517	3	2,514	2,502	12	457





## APPENDIX B

Excerpt from 1941 Report to the General Assembly of the Commonwealth of Pennsylvania on The Organization and Administration of Pennsylvania's State Government, by the Joint State Government Commission of the General Assembly, pertaining to the Department of Banking and Pennsylvania Securities Commission.



CHAPTER XXIII  
DEPARTMENT OF BANKING

The Joint State Government Commission makes no recommendations with respect to the Department of Banking at this time. Chapter XXIII of the "Report on the Organization and Administration of Pennsylvania's State Government" by the Joint State Government Commission contains a description of the organization and administration of the Department of Banking.



## CHAPTER XXIII

### DEPARTMENT OF BANKING

The United States has two banking systems: the National Banks which are under the supervision of the Federal Government at Washington, and the States Banks which are regulated by the various States.

In Pennsylvania the agency which regulates State Banks is known as the Department of Banking, which was created in 1891 and its powers and duties enlarged and extended in 1895. These Acts remained in effect until 1919 when a new Act was passed, which in turn was repealed by the Banking Act of 1923.<sup>(1)</sup> This Act was a reenactment of the Act of 1919 with changes made to conform to the Administrative Code.

A code covering the powers and duties of the Banking Department, which had been in the process of drafting for two years, was enacted in the session of 1933 and is now in effect.

#### A. FUNCTION

The function of the Department of Banking is the supervision of banking institutions and building and loan associations to secure the utmost protection for depositors, creditors and shareholders dealing therewith and for the public generally. It also seeks to prevent distribution of fraudulent securities, and to make impossible the charging of unlawful interest rates upon loans made by financial institutions. When banking institutions or building and loan associations fail, the Department liquidates their affairs for the benefit of the depositors, creditors and shareholders.

#### B. POWERS AND DUTIES

The powers and duties of the Department are set forth in detail in the Department of Banking Code,<sup>(2)</sup> the Banking Code<sup>(3)</sup> and the Building and Loan



(4)  
Code, which require that all persons or institutions under its supervision shall obey the laws pertaining to them or their businesses. This applies to the following:

1. All corporations and persons which are authorized to receive or do receive in this Commonwealth money on deposit or for safekeeping, or which are authorized to engage or which do engage in the Commonwealth in a banking business, and all corporations which are authorized to act or which do act in this Commonwealth as trustees, guardians, executors, administrators, or in other fiduciary capacities, including banks, bank and trust companies, trust companies, private banks of which there are 16 in the State, savings banks, and mutual savings funds; but not including hotels or clubs which receive money from guests or members for temporary safekeeping, express, steamship, or telegraph companies which receive money for transmission, and attorneys-at-law, real estate agents, and attorneys-in-fact, who are not engaged in the business of receiving moneys in this Commonwealth for deposit or for transmission but receive and transmit moneys only as an incident to their general business or profession, brokers licensed under the laws of the Commonwealth, holding membership in a lawfully constituted brokerage exchange, who do and have authority to do only such banking as is incidental to their brokerage business.
2. All national banking associations, incorporated under the laws of the United States, which are authorized to act and which do act in the Commonwealth as trustees, guardians, executors, administrators, or in any other fiduciary capacity to the extent to which supervision by State authorities is or may be permitted under the laws of the United States.
3. All building and loan associations authorized to transact or transacting business in this Commonwealth.
4. Credit unions organized under the provisions of the Act of May 26, 1933, as amended.
5. Small loan companies engaged in the business of lending in sums of \$300.00 or less, organized under the Act of June 17, 1915, as amended.
6. Consumer discount companies engaged in the business of lending sums of \$1,000 or less, organized under the Act of April 8, 1937.
7. Pawnbrokers licensed to do business under the Act of April 6, 1937.
8. Supervision, registration, and regulation of corporations and persons engaged in the sale of investment securities.





9. Supervision of banking institutions and building and loan associations under the Department of Banking which are taken into possession for liquidation and for which the Secretary of Banking acts as receiver.

However, when any corporation subject to the supervision of the Department of Banking is also engaged in a title insurance business or a mortgage guarantee business subject to the supervision of the Insurance Department, such branch of its business is subject to the supervision of the Insurance Department and not of the Department of Banking.

The Department of Banking has the power and is required to examine all institutions under its supervision thoroughly at least once each year or more frequently if it deems such action necessary or advisable, to safeguard the interests of depositors, creditors or shareholders.

Whenever it appears to the department that a provision of the charter or of any other law regarding the business of such institution is being violated or that such institution is conducting business in an unsafe and unsound manner, the Department has the power to issue a written order under seal, directing that such violation of law or such unsafe and unsound practice be discontinued.

The Department also has the power through the Banking Board and Building and Loan Board to remove attorneys, officers, employees, or directors of institutions, who continue to violate the law or continue unsafe and unsound practices in conducting the business of their institutions. The law provides that the above mentioned Boards shall first give any person a hearing before removing him or declaring his office or position vacant.

The Department of Banking is also charged with the duty to institute criminal proceedings for violations of the Codes relating to banking institutions and building and loan associations.



The Pennsylvania Securities Commission, in addition to its power to license and register dealers or salesmen of investment securities in Pennsylvania, also has the right to revoke such registration. The Commission is vested with the power to institute criminal proceedings for violations of the Pennsylvania Securities Act and may bring an action in the name of the Commonwealth against any person or corporation and may enjoin them from doing any acts in violation of the provisions of the Securities Act.

The Secretary of Banking as receiver of closed banks and building and loan associations has all the rights, powers and duties of a receiver appointed by any court of equity in the Commonwealth. In this capacity he is a representative of the depositors, creditors and shareholders.

### C. ORGANIZATION AND OPERATIONS

As is indicated by Chart XXIII-1, the functions administered by the Department of Banking are distributed among various bureaus and divisions, and departmental administrative boards. Of the latter there are three; namely, the Banking Board, the Building and Loan Board, and the Pennsylvania Securities Commission. The Secretary of Banking is chairman and a member of the first two Boards, and a member ex-officio of the Securities Commission.

#### 1. Executive Bureau

The organization of the Department is directed through the Executive Bureau by the Secretary of Banking, who is appointed by the Governor. The Executive Bureau defines and administers the general policies of the Department, maintains personnel records, general correspondence and mail files of the Department. The Bureau coordinates the work of the Department and facilitates the Secretary's supervision.

#### 2. Bureau of Banks and Trust Companies

The Bureau of Banks and Trust Companies examines all banks in accordance



with the Department of Banking Code of 1933,<sup>(2)</sup> which requires that each bank shall be examined at least once in each calendar year. In order that the work may be carried on efficiently, the State has been divided into three districts with offices in Philadelphia, Pittsburgh and Harrisburg. In addition to each district, the Bureau maintains a clerical force in Harrisburg to study reports of the examiners, to analyze and interpret such reports and to carry on correspondence. The periodic reports submitted by the banks themselves are also studied. This Bureau maintains an Accounting and Budget Section, taking care of the departmental accounting functions.

The Bureau of Banks and Trust Companies consists principally of bank examiners. They examine every bank, bank and trust company, private bank and savings bank in the State, of which there are four hundred, with assets of over three billions, and trust assets of nearly five billions.

All national banks are examined by national bank examiners, and all State banks and trust companies by the State Department of Banking and the Federal Deposit Insurance Corporation. If, however, the bank and trust company is a member of the Federal Reserve System it is not examined by the Federal Deposit Insurance Corporation but is examined by the Federal Reserve Bank of which it is a member and by the State Department of Banking.

The number of banks, trust companies, private and savings banks under the jurisdiction of the Banking Department totaled 728 on June 1, 1929. During the three ensuing years a drastic reduction occurred in the number of banking institutions so that on June 1, 1932, the number under supervision dropped to 498. From 1932 up to the present date (June 1, 1940), the reduction was more gradual. There are now 402 institutions under sup-





ervision of the Department.

The Department of Banking classifies banking institutions into four groups, A, B, C, and D, according to the condition of the institutions as reflected by the reports of examination. This classification, however, does not in itself determine how often the institutions involved will be examined within any one year. The particular factors or problems which contribute to the final classifications are more important in determining the frequency of examination, special examination, investigation, special reports and conferences which are arranged in addition to the one regular examination conducted each year.

The costs of the Bureau of Banks and Trust Companies are assessed against all the banking institutions of the State on a sliding scale proportionate to the total assets of the commercial department and the total assets of the trust department. A minimum charge of fifteen dollars covers the first \$100,000 of assets up to a certain point; then it drops down to five dollars for each \$100,000 additional up to \$2,000,000 and then four dollars up to \$5,000,000, then three dollars for each \$100,000 up to \$10,000,000, then two dollars for each \$100,000 over \$10,000,000.

a. Division of Credit Unions and Small Loan Companies

It is the function of the Division of Credit Unions and Small Loan Companies to supervise all credit unions, consumer discount companies, small loan companies and pawnbrokers. Examinations must be made at least once a year of all credit unions and small loan companies, while consumer discount companies and pawnbrokers may be examined whenever the Secretary of Banking deems such a procedure necessary.

3. Bureau of Building and Loan Associations

The Department is given jurisdiction over active building and loan



associations and also over building and loan associations which are being liquidated voluntarily by liquidating trustees elected by the shareholders. The function of this Bureau is to examine and supervise these associations. The State has been divided into two districts, with offices in Philadelphia and Harrisburg. Two-thirds of the number of associations are located in the southeastern part of the State. The Bureau is under the direction of a chief and the two district offices have in their employ office assistants, examiners, stenographers and clerks.

The Department of Banking determines the frequency of an examination according to the particular factors or problems within each association which require special attention. These factors or problems determine the number of special examinations, investigations, special reports and conferences arranged in addition to the one regular examination held in each year.

On June 1, 1929, there were 4,235 building and loan associations subject to supervision by the Department of Banking. As of June 1, 1940, the number of these associations totaled 2,412, or a reduction of 43.0%.

#### 4. Bureau for Liquidation of Institutions in Possession

This Bureau has the supervision of all closed banks and building and loan associations. Those in possession of the Department for purposes of liquidation pay the costs incurred in their behalf the same as active banks.

As of May 1, 1940, the Secretary of Banking acted as receiver for 122 banks, with appraised assets of over \$40,000,000 and receiver of 274 building and loan associations with appraised assets of over \$3,000,000. Nine of the banks and 116 of the building and loan associations will in all likelihood not be able to pay further dividends, and final accounts will be filed in court for these institutions.



Most of the closed banks have been in receivership for approximately nine years and most of the building and loan associations for approximately five years. The receivers have collected during this period those debts which were most easily collectible and have sold the most easily disposable assets, leaving for collection the most difficult debts, and for sale the most unsalable properties.

Obviously, it will be more difficult as time goes by to collect debts owed to the closed institutions or to make advantageous settlements or to sell real estate at a profit. Consequently, the cost of liquidation, per unit, must naturally rise.

There are approximately 32,680 persons and corporations who have not yet paid their debts to the closed banks and approximately 21,770 who owe the closed building and loan associations. There are 1,386 individuals or corporations, each of whom owe one or more closed banks over \$10,000. These 1,386 debtors owe the closed banks \$43,000,000.

Real estate owned by closed banks and by closed building and loan associations has an estimated market value of approximately \$20,000,000.

In the liquidation of closed banks and closed building and loan associations there are three types of expenditures involved:

1. General overhead, such as the salaries of employees of the Liquidation Division itself, which supervises the liquidation of all closed banks and building and loan associations.
2. Expenses incurred by the Secretary of Banking as receiver and the employment of a deputy receiver and in the employment of others who are directly and solely engaged in connection with winding up the affairs of the particular closed banks and closed building and loan associations.
3. Expenses incurred by the Secretary of Banking for services engaged for the benefit of more than one institution in the possession of the Secretary as receiver.





The expenses involved in item 2 are paid out of the assets of the particular closed institution. The expenses involved in items 1 and 3 are equitably distributed among the several banking institutions and building and loan associations in the possession of the Secretary as receiver. The division and apportionment of the expenses in items 1 and 3 are based on the inventory and appraisal of the closed banks. Each bank and building and loan association is required to pay the expenses in the same proportion that the value of their inventory and appraisal bears to the total values of all the inventories and appraisements of the several closed banks and building and loan associations in the possession of the Secretary as receiver. This practice is followed by the Secretary of Banking and is authorized by the Department of Banking Code of 1933.<sup>(2)</sup>

In 1939, the Legislature appropriated \$10,000 to the Department of Banking which was designated as a revolving fund for use in liquidating closed building and loan associations. This revolving fund was deemed necessary because many closed associations were in an unliquid position and were therefore unable to pay their proportionate share of the expense. In such situations the revolving fund made advances on behalf of these associations of their shares of the expense, and when the assets of the associations were reduced to liquid form the associations reimbursed the revolving fund. This revolving fund is now down to around \$1,000, most of it having been advanced to cover the situations indicated.

#### 5. Departmental Administrative Boards

##### a. Pennsylvania Securities Commission

The Pennsylvania Securities Commission, a departmental administrative commission in the Department of Banking, was created by an amendment to the Administrative Code approved April 13, 1927,<sup>(5)</sup> and was vested with





the power to administer and enforce the provisions of the Securities Act of 1927 as amended from time to time. In 1933 there was placed under its supervision the enforcement of Act No. 113, P.L. 788, which transferred from the Department of Banking the rights and duties relating to the licensing and regulating of corporations, co-partnerships, associations and individuals engaged in the investment business. The 1939 session of the Legislature passed a new "Pennsylvania Securities Act" which was approved by the Governor June 24, 1939,<sup>(6)</sup> and repealed the Act of 1927.

The function of the Commission is to protect residents of Pennsylvania in the purchase and sale of securities. It registers dealers and salesmen who wish to engage in the business of offering securities to the public in Pennsylvania and who undertake to dispose of securities for the public. After a hearing, it may revoke the registration of any dealer or salesman who has violated any of the provisions of "The Pennsylvania Securities Act" or who has been guilty of any fraud or fraudulent practice thereunder. Refusal or revocation of registration by the Commission is made subject to appeal to the Court of Common Pleas of Dauphin County. The Commission is also vested with authority to institute criminal prosecution for violations of the provisions of "The Pennsylvania Securities Act" and may bring an action in the name and on behalf of the Commonwealth of Pennsylvania against any person to enjoin such person from doing any act or acts in violation of the provisions of "The Pennsylvania Securities Act" or Act No. 113, 1933, P.L. 788. With respect to this latter Act, the Commission is given power to require the registration of entities engaged in the business of selling or offering for sale installment or single payment contracts under which all or part of the total amount received is to be repaid at some future time and wherein the contracts are "not secured by adequate property."



The Commission is composed of three Commissioners, one of whom is designated as Chairman by the Governor, and the Secretary of Banking is an ex-officio member. The Chairman receives an annual salary of \$7,500, while the remaining two commissioners receive \$7,000. All employes, agents and investigators for the Commission are appointed by the Secretary of Banking with the approval of the Governor. The work of the Commission falls into four general classifications; namely, secretarial, examination, registration and investigation. The secretarial staff has charge of office routine and sees to the execution of the orders of the Commissioners. The examiners employed by the Commission check upon the qualifications of all applicants for registration before presentation to the Commissioners for action, while the investigators handle complaints coming before the Commission and assist in the prosecution of violators of "The Pennsylvania Securities Act."

The Commissioners pass upon the applications for registration of dealers and salesmen, hold hearings on dealers' and salesmen's applications, revocations, and refusals to register, scrutinize prospectuses describing securities, order investigations, and in general supervise all activities of the Commission. The Commission supervises the registration of all dealers and salesmen. There are at present 527 dealers and 2,700 salesmen registered. The filing fee for dealers is \$10 and the registration fee for dealers is \$40. The registration fee of \$40 is reduced by one-half on and after July 1st of each year. The filing fee for salesmen is \$10 and the registration fee is \$10 for each salesman. The qualifications of all applicants for registration are checked by the Commission's examiners before their applications are submitted to the Commission for consideration.



The offering of all corporate securities through registered dealers is passed on by the Commission before they are sold in the Commonwealth. No control is exercised over Federal, State or municipal securities. There are two methods by which the sale of securities is regulated: (1) by requiring the filing of a prospectus with the Commission through a registered dealer, and (2) by licensing as a dealer the issuing company to sell its own securities. In the latter case the entire financial set-up is investigated. In the former, the Commission's primary interest is in the full disclosure in the prospectus of all the facts upon which a prospective purchaser can base his judgment of the security offered. This includes disclosure of the margin of profit given to the dealer in the form of commissions, etc. by the corporation whose securities are being offered to the public. The Commission has the right to refuse to sanction the sale of securities if, in its judgment, the plan of business is "unfair, unjust, or inequitable." Under "The Pennsylvania Securities Act" the Commission is given the power to use practically any method it may deem necessary to determine the true financial condition of the applicant.

The facilities of the Pennsylvania Motor Police have been added to those of the Commission in making investigations. If a complaint is made to the Commission relative to an illegal sale of securities by an unregistered dealer or salesman, an investigation is made by the Motor Police at the request of the Commission. The report of such an investigation is turned over to the Commission for scrutiny and, if it is apparent that the law is being violated, a Commission investigator prepares information for warrants of arrest and assists in the prosecution of the case. In addition, the following organizations cooperate in keeping the Commission informed regarding securities schemes in violation of the law: the State





Chamber of Commerce, the Pennsylvania Bankers' Association, Investment Bankers' Association, and the Better Business Bureaus. The local members of these organizations answer quarterly questionnaires prepared and sent out by the Commission which provide the Commission with current information from all over the State.

b. The Banking Board

The Banking Board,<sup>(7)</sup> a departmental administrative board, is vested by the Legislature with the following distinct powers:

- (1) It may upon recommendation by the Secretary of Banking and after hearings, remove any officer, director, trustee, attorney or employe of any banking institution under the jurisdiction of the Department found guilty of unsound banking practice or violation of the law.
- (2) The Board must also pass upon establishment of branch banks under the Banking Code in any community where establishment of branches was prohibited prior to January 1, 1935.
- (3) In the case of reserves which banking institutions have to maintain against deposits, the Department of Banking may, with the approval of the Banking Board, alter the amount which is now set up by the Banking Code. The right to increase the required reserves is limited and, once increased, may later be decreased but not below what the Code itself prescribes.
- (4) In the case of common trust funds maintained by bank and trust companies or trust companies for the collective investment of trust funds, the Department of Banking may, with the approval of the Banking Board, issue regulations pertaining to their establishment and operation.

The Banking Board has no power to initiate any matters, its functions being only to pass upon certain matters approved by or initiated by the Department of Banking.

The Act creating the Board provides that six of the nine members must be appointed by the Governor from a panel of nominees presented by the Pennsylvania Bankers' Association. These members can be removed only for



absence from six consecutive meetings of the Board without excuse. If any member is removed, the Governor must appoint a substitute from the same geographical area represented by the original member. The three remaining members consist of the Secretary of Banking, who acts as chairman and ex-officio member, and two persons appointed by the Governor.

c. The Building and Loan Board

The Building and Loan Board <sup>(8)</sup> is vested by the Legislature with the power, upon recommendation by the Secretary of Banking and after hearings, to remove any director, officer, attorney or employe of any building and loan association under the jurisdiction of the Department found guilty of violation of the law relating to building and loan associations, or of unsafe or unsound practices in conducting the business thereof.

The Act creating the Board provides that six of the nine members thereof shall be appointed by the Governor from a panel of nominees presented by the Pennsylvania League of Building and Loan Associations. These members can be removed only for absence from six consecutive meetings of the Board without excuse. The three other members consist of two appointed by the Governor at large, and the Secretary of Banking, who acts as chairman and ex-officio member.

D. PERSONNEL

On June 1, 1940, the Department of Banking (including the Pennsylvania Securities Commission) employed a total of 218 persons to perform the Department's functions discussed on preceding pages. The aggregate annual payroll for these employes totaled \$535,370. Table XXIII-A shows the distribution of these employes and total salaries paid according to Bureau.



TABLE XXIII-A

DEPARTMENT OF BANKING  
NUMBER OF EMPLOYEES AND SALARIES PAID  
JUNE 1, 1940

Bureau	Number of Employees	Annual Salaries
Executive .....	63	\$135,000
Banks and Trust Companies.....	66	176,810
Building and Loan Associations .....	66	164,780
Credit Unions - Small Loan Companies ....	6	13,260
Liquidation of Closed Institutions .....	3	8,400
Pennsylvania Securities Commission .....	14	37,120
Total .....	218	\$535,370

E. FINANCES

As indicated previously, the Department of Banking assesses banking institutions and building and loan associations for expenses incurred by the Department in its supervisory and examining capacity. Hence, exclusive of appropriations to the Securities Commission, the Banking Department is self-supporting and does not receive appropriations from the Legislature, except for a small sum (\$10,000 for the 1939-41 biennium) used as a revolving fund for liquidation expenses in connection with building and loan associations.

In Table XXIII-B, page 2317, is shown, by function performed, the gross cost of operating the Department of Banking, together with revenues derived during the two bienniums 1935 to 1939 and the first year of the 1939-41 biennium. Although certain functions are not on a self-supporting basis, the following analysis indicates that aggregate revenues amply pay for the expense involved in operating the Department.





TABLE XXIII-B

DEPARTMENT OF BANKING  
GROSS COSTS AND REVENUES DERIVED  
BIENNIUMS 1935-37 TO 1939-41

Function Performed	Biennium					
	1935-37			1937-39		
	Gross Cost	Revenue	Gross Cost	Revenue	Gross Cost	Revenue
Overhead expenses applicable to supervision of banks & trust companies	\$307,923.51	\$367,057.65	\$357,897.05	\$363,116.31	\$141,620.57	\$180,609.35
Examinations of banks and trust companies....	517,167.15	508,625.81	530,925.39	541,580.12	250,511.75	258,532.91
Examinations of building and loan associations..	368,403.31	324,373.40	321,065.13	302,054.71	132,506.09	132,269.33
Supervision and examination of private banks & small loan companies	33,972.69	73,002.12	49,057.10	131,219.95	17,664.41	69,263.41
Liquidation of closed institutions a/.....	31,248.86	31,248.86	33,151.67	33,151.67	9,018.25	9,018.25
Overhead expenses applicable to supervision of building and loan associations .....	142,154.18	150,150.03	132,301.25	125,679.18	54,543.68	56,257.70
Registration and supervision of security dealers and salesmen ..	118,032.92	200,648.19	136,322.30	220,419.94	45,722.30	84,933.25
Total .....	\$1,518,902.62	\$1,655,106.06	\$1,560,719.89	\$1,717,221.88	\$651,587.05	\$790,884.20

a/ Including bank examiners used as temporary special deputies until permanent special deputies were appointed.  
b/ One year only





## FOOTNOTES

- (1) 1923, P.L. 809
- (2) 1933, P.L. 565
- (3) 1933, P.L. 624
- (4) 1933, P.L. 457
- (5) 1927, P.L. 273
- (6) 1939, P.L. 748
- (7) 1937, P.L. 337
- (8) 1937, P.L. 337



#### APPENDIX C

Excerpt from 1946 Report to Governor Edward Martin on Reorganization of the State Government and Classification and Compensation System of Personnel Service, by the Reorganization and Classification Committee, pertaining to the Department of Banking.



DEPARTMENT OF STATE  
(Constitutional Office)

The powers and duties of the expanded Department of State would include, among others, the regulation of banking, insurance, securities, athletic contests, motion pictures, licensing of realtors and other businesses and trades, the promotion and publicizing of business in the Commonwealth, co-ordination of state and interstate affairs, the incorporation and registration of corporations, the recording of legislative and executive acts and the supervision of elections, as well as related matters.

The Department of State would continue all its present functions, with the exception of the State Employees' Retirement Board, and would absorb the present Department of Banking, the present Insurance Department and the present Department of Commerce with the exception of the Planning Board. The State Athletic Commission, now in the Department of Revenue, and the State Board of Censors, now in the Department of Public Instruction, would be transferred to this department. The Secretary of the Commonwealth would be an ex-officio member of all the boards and commissions transferred to this department. In addition, it is proposed that all publicity work of the Commonwealth as far as practical be centered in this department.

In order to have a proper coordination of interstate affairs, it is proposed that the Commission on Interstate Cooperation and the Atlantic States Marine Fisheries Commission be associated with this department and the Secretary of the Commonwealth made an ex-officio member of these agencies. (Pages 88 and 89 of the 1946 report)

DEPARTMENT OF BANKING

The Committee recommends:

1. That the functions of the Department of Banking be transferred to the Department of State. (Page 106 of the 1946 report)

















